

Nation's Business

A U.S. Chamber of Commerce Publication

November 1984

\$2.25

1985 Showdown On Spending

Business mobilizes
to block higher taxes
with high growth policies

**Incubators For
Baby Companies**

**Don't Miss The
Boat on Exports**

**Saving Heirs
A Bundle**



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ADDRESSING TOMORROW TODAY.

The Land of the Bland

A STORY CAME over the wire last month from Chattanooga. It was to this effect—that a course would be offered this fall at a local community college for young persons going into business or possibly into radio and television. Here these Southern students would learn how to lose their Southern accents. The instructor was quoted as saying that in business “you want to have a voice that doesn’t stand out, so that people will listen to what you’re saying, not to how you are saying it.”

The typical Southern accent is “too mild.” It is not “assertive.” Out with the horrid thing!

Well, the wire story got me so riled up that I wrote a newspaper column on this misguided proposition; and now, a month later, I’m still upset. It seems to me that, far from obliterating our regional distinctions, we ought to be preserving and cultivating them. The notion that all Americans should talk alike is a foolish notion if ever there was one. We don’t need less diversity. We need more of it.

The love of variety lies at the very heart of our constitutional scheme of government. I’ve dwelled upon this theme a good many times before. In the beginning the whole idea was to have a national government of limited powers. Except for the powers specifically delegated to the national government, or prohibited by the Constitution to the states, the states were to be free to do whatever they wanted to do. They were to be laboratories for social and political experiment. This was what federalism was all about. The private sector was to be equally free to go its way.

Man and boy, I have spent 60 years watching this sand castle dissolve. The watchword of this century is “uniformity.” The community college in Chattanooga isn’t engaged in anything radical. In such areas as government, architecture, education, information, food and speech, the tendency is to get more national all the time. And of course many aspects of our public life should be handled nationally. You are not going to hear me defending botulism in the holy name of the Tenth Amendment.

But we go too far. That’s my point. Once upon a time we had a regional architecture that was strong and distinctive. New England had its salt boxes and Cape Cods. In two New England cities, Boston and Providence, as well as in New York, Philadelphia and Baltimore, you found row houses that were characteristic of each city. In Richmond and New Orleans you found ironwork, but the ironwork was different. The red tiled roofs of Florida were not quite like the

red tiled roofs of West Texas and New Mexico. One region relied on stucco, another on adobe, yet another on brick or wooden siding. We had cities and towns with character: Taos, Savannah, Denver, Fort Worth.

Little of that architectural distinction remains. Downtown Atlanta scarcely can be distinguished from downtown Kansas City. Hotels and office buildings are from Anywhere, U.S.A. Urban suburbs are as alike as so many six-packs. With growth of the fast-food industry, the same thing is happening to gastronomy. The McDonald’s people are celebrating the sale of their 50 billionth hamburger; and the depressing thought will not go away that every McDonald’s burger has been made exactly like every other McDonald’s burger. The whole 50 billion.

If some of my liberal friends have their way, the role of the national government in education will be greatly expanded. Our curricula already are dominated by the requirements of national scholastic tests. Take the whole business of communication. In my nonage the country had 15,000 weekly newspapers and more than 2,000 dailies. It was from these that we got our news. Now the number of weeklies has been cut almost in half, and we have barely 1,700 dailies. The three national television networks dominate the news business. The

most talked-of development in my craft is Gannett’s *USA Today*, a national newspaper with truly national circulation.

YOU SEE why I’m upset about that 10-week course in Chattanooga. I am a Southern boy. I love the Southern accent. When my wife and I bought a house in Charleston last year, a handyman began some repairs by looking around the crawl space. What was he searching for? He wanted abode. How was that again? He wanted abode to fix the faints. Then he wanted to repair the gay-yet in the faints. A friendly neighbor asked hominy pieces of lummer he might need, and he said foe, foive, sex, but he would pre-shade anything that might be available.

If Chattanooga has its way, the next generation of handymen will everywhere look for boards to fix fences. Sen. Ted Kennedy’s grandchildren will grow up to say Cuba instead of Cuber, and there won’t be any twang in the whole state of Taixus. They’ll be eating barbecue in Boston and baked beans in Beaumont. Chili will be named the National Dish, and we’ll all sound like Dan Rather. Is that a happy prospect? You all think it ovuh. □



We don't need less diversity. We need more of it.

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WASHINGTON LETTER

► **AGENDA FOR NEW CONGRESS** will include legislation of major concern to business that was lost in adjournment stam-pede. The recently concluded Congress failed to act on issues involving banking deregulation, product liability, clean air and clean water, and toxic waste cleanup. New Congress will also face another bill to overturn Supreme Court's "Grove City" decision narrowing penalties for sex discrimination in colleges. Similar bill defeated this time with help of business groups led by U.S. Chamber of Commerce would have greatly expanded federal civil rights authority, affecting many companies. Business also helped defeat immigration bill with onerous employer provisions and led successful fight against union-backed changes to bankruptcy law that would have given unions extraordinary protections.

► **ANOTHER LEGISLATIVE HOT SPOT** when 99th Congress convenes in January will be proposals to control large corporate mergers. House committees are already drafting regulations governing tender offers, "greenmail" (purchases of shares at inflated prices to avert a hostile takeover), community impact statements. Near-record total of \$80.6 billion in mergers and acquisitions in first half of this year is reason. In another field, business is already mounting campaign against expected proposals aimed at reducing tax exemptions on employer contributions to employee benefits, and taxing more health, pension, disability and other payments.

► **TRADE BILLS** rushed through in 98th Congress' last days acquired dozens of small amendments restricting imports of items such as gloves, catgut, asparagus. But most large-scale protectionist moves were defeated. A little-noticed victory for critics of waste in government was reform--after a seven-year fight--of the expensive Longshoremen's

and Harbor Workers' Compensation Act, the only federal program of workers' compensation for private-sector employees. Another victory: passage of legislation allowing companies to work together on research and development without incurring antitrust penalties.

► **AMERICAN AGRICULTURE COULD LOSE** markets it still has in developing nations if Congress keeps restricting imports from those countries. Third World countries that can't sell their raw materials and industrial products to us will lack cash to buy U.S. food and fiber. Agriculture Department economist Richard Kennedy says such nations will expand their own agricultural production using recent breakthroughs in genetic engineering, fertilizers, pesticides, irrigation and animal breeding.

► **AFFIRMATIVE ACTION** to end job discrimination is "alive and well" despite Supreme Court decision knocking down preferential relief based on race, sex or religion, says Assistant Attorney General William Bradford Reynolds. But federal help will go only to actual victims, not just members of a class, he tells National Chamber Litigation Center, and numerical goals and quotas are out. Future focus will be on individual rights rather than on "group entitlements," he says.

► **A PRESIDENT NEEDS TALENT** from outside his campaign structure, particularly from business, says John Macy, who was recruiter for President Lyndon Johnson. "This is the season for the public to inquire into the plans of the presidential candidates for the filling of critical executive positions," Macy tells society of public administrators. He says candidates should have personnel staff officers doing recruiting, helping private sector understand opportunities in government service. He says confirmation should be simplified,

WASHINGTON LETTER

top salaries should be higher, and entry training should be improved.

► **SMALL BUSINESS COULD SUFFER** from a proposal by White House Office of Management and Budget. Proposed rules would soften government's contracting out policies, under which private sector provides goods and services cheaper than government. Rules would exempt government activities with fewer than 10 employees and let agencies compete unfairly. Government employee unions will be pleased, but effect will be to discourage some small firms from bidding on contracts.

► **SMALL BUSINESS GETS BREAK**, however, from recent passage of bills giving small firms more opportunities in government spare parts procurement. Favorable language was in Defense authorization bill and one other measure.

► **ENERGY DEPARTMENT REPORT** on production expenses for electric plants again demonstrates nuclear plant efficiency. Steam electricity plants fueled by oil, gas and coal averaged 26.63 mills per kilowatt hour compared with 14.19 mills for nuclear steam-electric plants. The fuel costs share of production expenses was 87 percent or 23.97 mills for oil, gas and coal, and 42 percent or 5.93 mills for nuclear.

► **A REAGAN LANDSLIDE VICTORY** could produce ideological control of new Congress but still wouldn't bring a Republican majority in the House, experts say. Partisan redistricting by state legislatures since 1980 has made all but 85 or 90 of the 435 House seats noncompetitive, "safe" for the Democratic or Republican incumbents. Sen. Richard Lugar, chairman of the Republican Senatorial Campaign Committee, tells U.S. Chamber of Commerce "Breakfast Bunch" he sees party swing of no more than three seats in Senate, now 55-45 Republican, and no more than 25--

more likely 15--seats in House, now 268-167 Democratic.

► **HARD TIMES FOR SOFT COAL** will continue despite recent amicable agreement between operators and United Mine Workers. American delegates to Japan seeking commitments for increased coal exports to that country returned "very disappointed" in lack of results. Standard & Poor's predicts Australia will replace United States as world's largest coal exporter within two years. The financial information firm sees U.S. coal exports dropping every year over rest of decade, stabilizing in 1990 at about 65 million tons annually, half 1981 peak. More bad news for U.S. mining companies: Cheaper coal from Colombia is moving into U.S. market.

► **YOU CAN HELP PLAN 1990 Census.** Bureau of Census is holding public meetings this year and next to explain planned changes and get comments. Are provisional estimates useful or only confusing? Would block-level data only on computer tape be sufficient? What subjects should be dealt with in special purpose summary files? Census regional offices have dates and agendas for November and December meetings in Louisville, Ky.; Albany, N.Y.; Oklahoma City; Los Angeles; Sacramento, Calif.; Little Rock, Ark.; and Baton Rouge, La.

► **AUTOMOTIVE FLEETS ARE TARGET** of new Environmental Protection Agency drive against those who use leaded fuel in cars designed for unleaded and those who tamper with emission control devices. Prosecutions so far have hit municipal and business fleets in Philadelphia, Greenville County, S.C.; and Corpus Christi, Tex. EPA can't prevent individual consumers from using wrong fuel, so it is aiming at service stations, muffler shops, mechanics and fleet operators. Penalties sought so far range as high as \$730,000 in prosecutions against 64 fleets.

Sooner May Be Better Than Later

By Gerald W. Padwe, C.P.A.

Year-end tax planning will be even more critical this year because of the effective dates for some provisions in the Deficit Reduction Act of 1984. You may be wise to take actions in 1984 rather than 1985, when the new rules will remove some current tax advantages. Among the more sensitive areas are annuities, donations, alimony and real estate.

Annuities. Have you been thinking about buying an annuity? If so, it might be wise to purchase it before Jan. 18, 1985. The 1984 act makes it more difficult to withdraw funds early from a tax-deferred annuity without paying a penalty, but it does not affect annuities purchased before January 18.

Donations. If you are planning to make a charitable donation of property valued at more than \$5,000, you may wish to do so by December 31. After that date, for gifts of property valued at \$5,000 or more (except stocks or securities traded on an exchange) the substantiation requirements could be a real nuisance. You will probably need a written appraisal from what the statute calls a "qualified appraiser" to submit with your return. The return may have to state when the property was acquired and from whom, and how much it cost.

In addition, a recipient who sells this property within two years after the gift must inform the IRS in writing. This may encourage the IRS to rule that the donor should be taxed on any gain or, at the least, to challenge the property's valuation. The easy answer—for any major contribution certainly—is to complete the gift before the end of 1984.

Alimony. The deductibility and taxability of alimony payments will change for agreements made after 1984. Anyone in the final stages of divorce or separation proceedings should compare the alimony rules under the 1984 and 1985 versions of the law and—assuming other financial considerations are equal—attempt to have an agreement

executed in the year that offers the better tax result.

Real estate. Certain business transactions may be better consummated in 1984 than in 1985. On a building sold in this calendar year, 15 percent of the previous straight-line depreciation will be converted from capital gain to ordinary income; but in 1985, 20 percent becomes ordinary income.

The new withholding requirements imposed on U.S. citizens who buy real property from foreigners become effective January 1. It is easier to satisfy the 1984 information reporting requirements than it will be to actually withhold tax in 1985.

Registering Tax Shelters

Provisions of the 1984 tax act requiring registration of tax shelters are now in full force. The organizer of each shelter in which interests were first sold to investors after August 31, must regis-

Sweeping new IRS
regulations broaden
the statutory test
for registering
tax shelters.

ter the shelter with the IRS (in addition to any other registrations required by securities acts or blue sky laws). To register, the organizer simply files a form with the IRS setting forth the nature of the shelter and identifying the promoter (who will often be the same as the organizer).

Shelter registration affects investors as well as the organizer. The IRS will assign to each new shelter a registration number that must be furnished to every investor in the shelter. The investors, in turn, must use that number on their own tax returns in reporting annual income or loss from the shelter investment.

The registration requirement enables the IRS to identify investors and to col-

lect information about specific shelters. The new law also gives the IRS broad leeway to determine which offerings must be registered.

Under the statute, an offering must meet two tests before it is classified as a shelter subject to registration.

First, the investment must be registered under state or federal securities laws, sold under an exemption to such laws (Regulation D, for example) or be "substantial"—defined as having five or more investors with a total investment of \$250,000 or more.

Second, there must be a 2 to 1 "tax shelter ratio" in any one of the first five years. To determine that ratio, the sum of the deductions available in such a year is added to a figure equal to twice the available credits (the investment tax credit, for example). That total is then compared with the amount invested in the shelter that year, and if it is twice as large as the investment, or larger, registration is required. If an investment is made in multiyear installments, only the installment for a particular year may be used in computing the ratio for that year.

The IRS has now issued sweeping temporary regulations that have broadened the statutory test. As a result deductions and credits must be used in figuring the ratio without any reduction for offsetting income.

Assume, for example, anticipated 1985 deductions and doubled credits of \$20,000, with income for the year of \$6,000 and a 1985 investment installment of \$8,000. Since the income is not subtracted, the shelter ratio is \$20,000 to \$8,000—rather than \$14,000 to \$8,000—and registration is required.

Because the registration test ignores income from the investment, many investments (including virtually all real estate syndications) will be treated as tax shelters for registration purposes. But registration does not imply either approval or disapproval of the investment by the IRS. An IRS registration number should not by itself deter you from making an otherwise sound investment.

That Congress meant the registration requirements to be taken seriously may be seen from the penalty provisions. Failure to supply the investor the shelter identification number results in a penalty of \$100 per investor. □

GERALD W. PADWE is national director-tax practice for Touche Ross & Co. For Your Tax File is an information service for readers. See tax and legal advisers on specific cases.

3 Wrongs Don't Make States' Rights

Until reading "Lambs Who Lost Their Way" [James J. Kilpatrick, September], I was beginning to believe that everyone had forgotten about states' rights. Each day the states willingly surrender their rights and responsibilities in order to obtain various federal handouts.

Kilpatrick covered laws on drunk driving and air bags, but three other recently enacted federal laws affecting drivers come to mind. In order not to lose federal aid, states must "buy American" for state highway and mass transportation projects, must require everyone to drive at 55 miles per hour and must institute periodic pollution control inspections of motor vehicles.

The federal government now taxes the people of each state, takes the money to Washington and skims off a large percentage to support the bureaucracy. Then they tell the states that if they comply with the federal rules they may

get some of the money back. In my opinion this is a form of blackmail.

C.C. WHITEAKER

Vice President

Skyline Steel Corporation
Larkspur, Calif.

After reading "Lambs Who Lost Their Way," I realize how fortunate columnists like Kilpatrick are—they do not have to come up with alternatives when they speak out on an issue.

The number of deaths each year from traumatic head injuries—44 percent caused by auto accidents—is estimated at more than 100,000. Even more staggering, 50,000 to 90,000 people a year survive serious head injuries with intellectual impairment so severe that they cannot return to normal life. The cost of care, plus lost income, adds up to \$1.6 million to \$2.5 million over a patient's lifetime. Most of these victims are lambs—young people between the

ages of 16 and 24, with their lives before them.

I would like to see the government mandate air bags, as a safety feature in all cars, much like the padded dashboard, safety glass and, yes, seat belts. This would not be government interference. It would be people trying to save other people's lives—and tax dollars.

JUDY FERGUSON

President

National Head Injury

Foundation/Missouri Chapter
Richmond, Mo.

A better way?

Re: "Reducing the Deficit: There's a Better Way" [Editorials, September].

Picking up on the ever-increasing popularity of state lotteries, our local newspaper recently posed the question: "Why not a national lottery to reduce the federal deficit?" I would ask the same question. Such a lottery would be painless, since participation would be voluntary, and it might prevent tax hikes. Proceeds would, of course, be used for the sole purpose of reducing the deficit.

A.W. BOGOVICH

Personnel Director

Danner Press

Canton, Ohio

Counting the costs

Re: Business Outlook [September]. Robert Ortner, the Commerce Department's chief economist, overlooks the laid-off manufacturing worker when he declares that the winners from the overvalued dollar are consumers. Thousands of jobs and millions of dollars in income have been lost to low-priced imported merchandise of all kinds and to the destruction of our ability to compete overseas.

NAT BOSTWICK

Denver

How secure?

Where I Stand [September] asks if I think I will ever collect Social Security retirement benefits. Unless our government collapses I will collect benefits; my concern is whether the benefits will be worth anything.

Unless government spending is cut back, deficits eliminated and the national debt brought under control, inflation will eventually soar to the point that programs like Social Security will be useless. A supplemental retirement benefit



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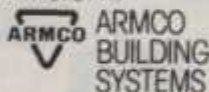
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LETTERS

of \$1,000 a month is quite a bit today, but if in 30 years a loaf of bread costs that much, what good is the benefit?

If you think cost-of-living increases in benefits will keep this from happening, you are wrong. One of the first steps Congress will take in trying to bring solvency to the retirement fund will be to curtail cost-of-living adjustments.

WILLIAM S. WARREN
 President
 Warren's Audio-Video Service
 Knoxville, Tenn.

Worth a thousand words

"The Great Franchise Boom" [September] raised this question: Did the woman in the photo on page 24 acquire that shape from turning into the Dairy Queen once too often?

EVIE CAVANAUGH
 Norwalk, Conn.

Too bad the lady in the picture wasn't dressed in white.

BOB ERNST
 Sheridan, Wyo.

PHOTO: MICHAEL HERON—WOODFIN CAMP



Editor's note: Granted, a giant "cone" makes the lady look as if she's turned into a Dairy Queen, but don't we all wish we could put that weight behind us as quickly as she will?

Don't tax, don't spend

Lord Keynes and this administration agree: The money supply could be controlled by reducing government spending rather than raising interest rates. The expanding economy would grow faster, provide more new jobs and pay off the public debt. If President Reagan can get Congress to agree, our economic woes will be laid to rest without the need of a tax hike.

Robert D. Trammell, Jr.
 Atlanta

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Tips for Starting Your Own Business

Tired of working for a large corporation? Want to be your own boss but don't know how to go about switching to a solo career?

A new home study course from the American Institute of Small Business may help you get started.

"How To Set Up Your Own Small Business" includes tips on these subjects: where to locate your business, market research, how to finance your business, sales forecasting and budgeting, purchasing and finding supply sources, advertising and public relations, insurance needs, how to sell, legal needs—including the types of organizational structure—and basic bookkeeping.

The course covers a variety of information for a person planning to operate a business out of the home or in a more structured office setting. It is suitable for those individuals entering the business world full time or part time. The course is applicable to entrepreneurs starting from scratch as well as those purchasing an existing business.

Max Fallek, the institute's president, notes that the course "takes most of the risk out of setting up a small business." He says it has been designed to eliminate the main reason people fail in business—a lack of managerial and business knowledge and experience—"by using simple, concise language anyone can follow."

The course costs \$295. For more information, contact the American Institute of Small Business, 9851 13th Avenue North, Minneapolis, Minn. 55441. Phone: (612) 545-1984.

Cost-Effective Recycling

Although Congress has passed a law stipulating that businesses generating as little as 100 kilograms (27 gallons) of hazardous waste a month must now keep extensive records and manifests tracking their wastes, the outcome could have been worse. Original legislation had included businesses producing as little as 25 kilograms monthly.

The Environmental Protection Agency and business groups like the U.S. Chamber of Commerce plan an educa-



Recycling hazardous waste is one option open to small waste generators. Here, an analyst at a recycling plant samples waste drum contents before they are processed.

tional blitz for newcomers on the hazardous waste issue. And businesses will be able to choose from several waste management options.

One popular method is landfill disposal. However, the measure would prohibit the dumping of organics and solvents—products that are used almost universally by large and small businesses.

Other choices include deep wells; high temperature incineration; chemical, physical or biological degradation; land farming, which is the injection of wastes near the surface of the land, and recycling.

Businesses that select recycling could reap several benefits, according to David J. Schoonmaker, vice president and general manager of McKesson Environmental Systems Company, which recycles solvents and recovers organic compounds.

- Recyclers would be responsible for keeping records. Small waste generators would be relieved of long-term liability and worry about improper handling or abandoned sites.

- Petroleum-based high-cost solvents could be cleaned up and re-used.

- Byproducts of recycling could be

sold to new markets. An example: an FDA approved solvent that has been used in kidney dialysis machines and that, with minimal reprocessing, can be used in manufacturing paints and coatings.

- Contamination extracted from hazardous wastes can be blended with other solvents and used as chemical fuel for blast furnaces and cement kilns.

In the end, nothing would have to go to landfills.

Some industries that have already taken advantage of recycling include paint and coating firms, and electronics and pharmaceutical companies.

CEO Compensation

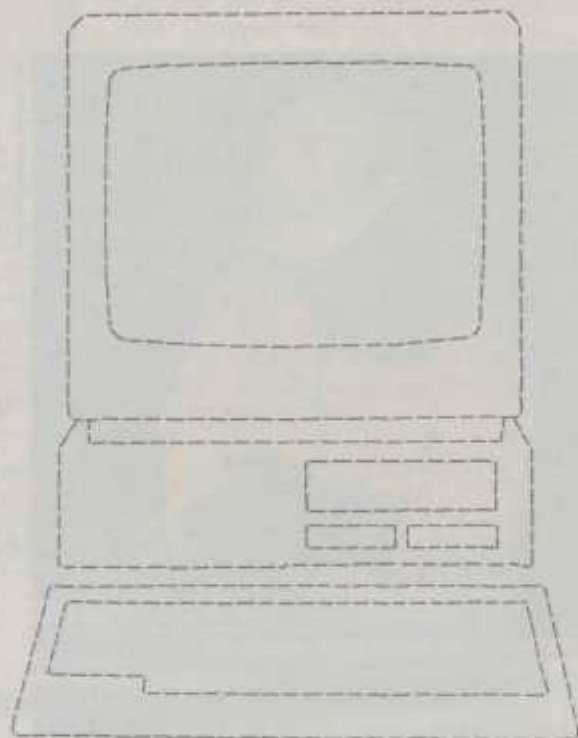
If you head a small or medium-sized company and are curious about the compensation packages of your peers, a study by Peat, Marwick, Mitchell & Company may interest you. The international accounting firm surveyed 1,016 firms with sales ranging from about \$500,000 to \$25 million. The average chief executive officer surveyed is 45, oversees a company with pretax earnings of \$308,500 on revenues of \$4.5 million and takes home \$71,797 in base salary and extras.

Equity ownership figures prominently in executive incentives and compensation in these companies, the study found. Typically, a CEO owns 59 percent equity in the firm, followed by the chief operating officer with 13 percent and the chief financial officer with 10 percent.

Instead of devising compensation strategies, 72 percent of the surveyed companies have adhered to granting discretionary salary increases and bonuses. But "across-the-board salary increases and discretionary bonuses are slowly giving way to a number of bonus formulas and incentive structures," notes Peter T. Chingos, a principal in Peat Marwick's compensation practice group.

Supplemental medical benefits are offered to CEOs by 47 percent of the companies; 64 percent offer supplemental life insurance, and 18 percent offer supplemental retirement benefits. Tax and financial planning are provided by 29 percent.

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PCjr also runs a growing number of powerful cartridge programs. They work faster than



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Keyboard	Optional 128KB
Typewriter-style	Memory Expansion Attachment(s)
Detached, cordless	13 ports for add-ons, including built-in serial interface
Warranty	
1-year limited warranty	



Right now, PCjr can run the powerful Lotus 1-2-3TM on diskette (with Lotus 1-2-3 PCjr Installation Kit and additional memory). The new cartridge version, requiring no additional memory, will be available this fall.



Managing Your MoneyTM by Andrew Tobias, new on cartridge for PCjr, is a comprehensive personal financial advisor and manager.



Turn your screen into a canvas. The new cartridge program, PCjr ColorPaint, lets you create with the added dimension of color.



PCjr's new typewriter-style keyboard adds a nice touch to business, home or educational computing.

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Managing Your Money is a trademark of MECA. 1-2-3 and Lotus are trademarks of Lotus Development Corporation.

*Weight does not include power pack and monitor.
†IBM Product Center price.

Jollity in the Holiday Forecast

Merchants can expect to ring up record sales this holiday season, many prominent economists agree. As a percentage increase over last year, though, the end-of-the-year rise will not match the 1983 gain, says Edward Guay, chief economist for the Connecticut-based CIGNA Corporation. But profits should be fatter, he adds.

Consumers are once again in a spending mood, Guay says, following an unexpected summer slump in consumer purchases that came on the heels of a spring spending spree.

Guay forecasts a rise in retail sales, over the previous month, of between 1 and 2 percent in both November and December. Several other leading economists agree with this estimate.

One sign of a possible spending splurge this Christmas: Incomes continued to grow during the summer slump. Out of every dollar that consumers' spendable income grew then, 80 cents was saved, says Martin Lefkowitz, an economist in the U.S. Chamber of Commerce economic policy division.

Guay says that a strong fourth quarter, in which shoppers wipe out the bulging inventories accumulated during the third quarter, could push the economy ahead at a 5 percent annual rate. That momentum, he says, could slide over into the first three months of 1985.

Higher Incomes

Consumers' inflation-adjusted after-tax incomes will show a rise for the third year in a row in 1984, Labor Department figures indicate. Why the increase? Economists say there are three causes: lower inflation, lower tax rates and rising productivity.

Consumers are not spending all of that extra income. Exactly how much will be saved over the long haul may never be known, since government measures of personal savings are incomplete. Says Edward Yardeni, senior vice president of Prudential-Bache Securities, Inc.: "I don't see any evidence that personal savings are going up."

Treasury Department figures sug-

gest, however, that it should be no surprise that savings have not gone up, for two reasons. First, consumers' real net worth is at near-record levels. Second, the much-ballyhooed 1981 tax cut did not result in a permanent cut in taxes. Income tax bracket creep and new taxes will by the end of the decade recoup all but \$12 billion of the estimated \$1.5 trillion in tax revenues the 1981 cut was supposed to have cost.

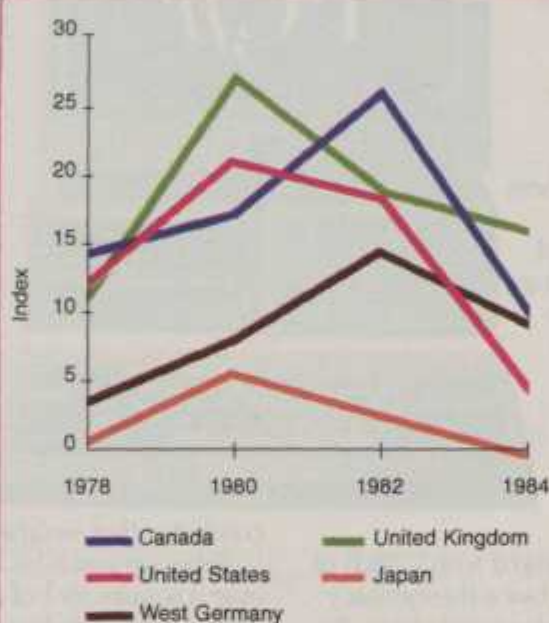
Steven Entin, a deputy assistant Treasury secretary for economic policy, says all that is left from the cut are the incentives from lower marginal tax rates.

Yardeni says any future pickup in the savings rate may have more to do with demographics than tax incentives. The population is growing older, and as today's baby boomers age, Yardeni says, they will save more and spend less.

Rising Productivity

In the second quarter of 1984, the most recent period for which figures are available, nonfarm business productivity went up 4.7 percent.

The Economic Discomfort Index



Source: U.S. Chamber of Commerce, economic policy division

In 1976 Democratic presidential candidate Jimmy Carter used the misery index—the rise in consumer prices added to the unemployment rate—as a measure of the Ford administration's economic failures.

Now an index of economic discomfort, developed by the economic policy division of the U.S. Chamber of Commerce, illustrates the dramatic improvement in the United States' economy in recent years, compared with economic conditions in other major industrial nations.

The index—a measure of the rise in consumer prices added to the unemployment rate, minus the rate of real economic growth—shows that since a peak of 20.9 in 1980, the U.S. index has dropped to 3.7.

It was the eighth consecutive quarter in which productivity rose. The longest recent rise occurred between 1966 and 1968, when 10 back-to-back quarters of higher productivity were registered.

Robert Genetski, chief economist at Chicago's Harris Bank, says there are two reasons for the increases.

First, productivity usually goes up in the early stages of an economic rebound.

Second, a fundamental improvement in the investment climate has occurred, brought about by the incentive effect of lower marginal tax rates on personal income and by a more advantageous treatment of business investment.

Those changes are in part responsible for the strongest gain in business spending in more than three decades. Real inflation-adjusted spending in 1984, a Commerce Department survey shows, will probably rise 13.3 percent over last year.

Next year, Genetski says, the gain will be smaller but still enough to keep capital investment growing at the highest level since World War II. □

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'85 Showdown On Spending

A preview of the business battle for high growth policies—not higher taxes.

By Peter A. Holmes

THE LEGACY of the late, legendary Sen. Everett Dirksen (R-Ill.) included this characterization of Washington's attitude toward spending: "A billion dollars here and a billion dollars there, and pretty soon you're talking about real money."

That oft-quoted comment could be on its way toward obsolescence, however, because federal finances are now being considered more and more in terms of *trillions* of dollars.

The national debt crossed the \$1 trillion level in 1981 and will probably hit \$2 trillion in 1986. Federal payments to individuals, which include Social Security, welfare and federal employee retirement, could total \$2.2 trillion over the next five years.

The annual federal operating budget, which did not reach \$500 billion until 1980, could pass \$1 trillion in the fiscal year beginning next October 1.

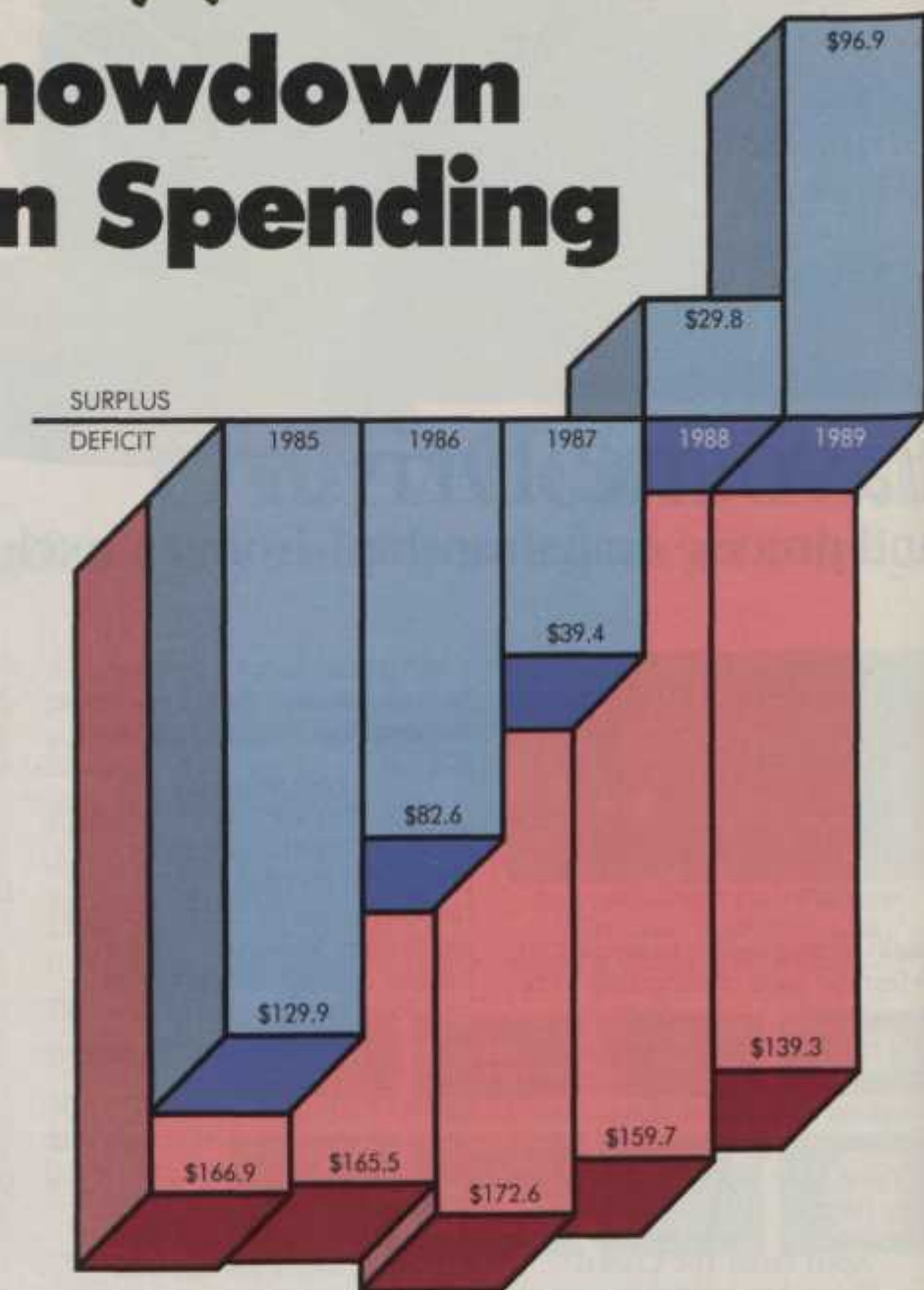
For the average individual, the comparative significance of one hundred million, a billion, a hundred billion or a trillion could easily be lost in a maze of zeroes.

A more meaningful standard might be federal spending trends on a per capita basis: \$250 in 1948; \$500 in 1958; \$1,000 in 1970; \$2,000 in 1977; \$3,000 in 1981 and an estimated \$4,200 in 1986.

Another measure: Federal expenditures as a percentage of the gross national product hit a peacetime high last year but are now falling as economic growth raises the GNP, and need for unemployment and welfare benefits declines.

By any measure, spending is not only roaring upward, but also is racing far ahead of available revenues. The most visible result is a string of deficits that could total \$1.6 trillion in this decade alone.

This acceleration of deficit spending



Two views on deficits (in billions): Blue bars reflect a high growth plan of U.S. Chamber of Commerce economists, red the administration forecast.

has intensified longstanding business concern over federal fiscal policies. Among reasons for the increasing worry is the prospect that failure to control the spending could short-circuit the current economic expansion by crowding private borrowers out of the credit markets.

With appropriate fiscal policies, business leaders say, the two-year-old expansion could redeem its promise of settling into prolonged, low-inflation prosperity.

To fight for those policies, business is mobilizing in an unprecedented manner. There will be a showdown next year over the most effective ways to

restrain federal spending before it overpowers economic growth.

These are among the principal initiatives:

- Major, Washington-based business organizations have formed the Deficit Reduction Coalition. Its goal: to pressure the White House and Congress into accepting expenditure cutbacks that would sharply reduce deficits without tax increases.

- The Tax Reform Working Group, a bloc that includes business and conservative organizations, is planning strategy to prevent tax increases that would undercut the expansion and to battle for so-far-unspecified changes that



PHOTO: DAVID WALZER

would stimulate capital formation and productivity.

• A nationwide organization, Citizens Against Waste, has been formed to mobilize as many as 50 million taxpayers throughout the 435 congressional districts. This grass-roots movement, which includes almost 100 business organizations, will demand that the new Congress start eliminating waste and inefficiency from government. Leaders of the movement include J. Peter Grace, the business executive who chaired a presidential commission that identified potential savings of hundreds of billions of dollars in federal programs.

IN AN EFFORT to encourage government actions that will stimulate rapid economic growth, the two top economists at the U.S. Chamber of Commerce have identified a mix of policies that could lead to an economy in which enough government revenues are produced to throw the federal budget into the black by 1988.

Richard Rahn, a vice president of the Chamber and its chief economist, and Ronald Utt, deputy chief economist, say in support of this alternate course:

"Rapid economic growth creates jobs and raises our incomes and standards of living. This leads to higher tax revenues, lower government spending and, of course, a greatly reduced deficit."

Rahn says it is possible for the economy to grow, after inflation, at an average annual rate of 5.6 percent through 1989.

By contrast, the Treasury Department says the economy will grow at a 4 percent annual rate. Rahn lists these

J. Peter Grace (above), chief executive of W.R. Grace & Company, is waging a crusade against waste and high taxes. He is spokesman for the Tax Reform Working Group and cochairman of Citizens Against Waste. Both groups advocate reductions in government spending. Treasury Secretary Donald Regan (below) promises a plan to overhaul the tax code.

conditions as needed for the higher level of growth:

- Tax reforms to further savings and investment.
- Limiting spending growth to a rate slower than the rise in GNP.
- Steady but noninflationary growth in the money supply.
- No new economic or social regulations imposed on business.
- No substantial increase in tax rates.

Such high growth policies could produce a budget surplus of \$30 billion in 1988 and \$97 billion in 1989, Rahn says. The key, he says, is to force a much higher level of business investment that leads to higher productivity.

He says: "There is evidence that we are entering a period of larger returns on capital as rapid technological change provides businesses with new opportunities to increase their productivity performance."

CITING PRE-ELECTION polls showing President Reagan a strong favorite for re-election, the Chamber economists assert, "Politically, the conditions for such changes existed in 1981; therefore, they ought to be again attainable in 1985 without undue difficulty."

The Deficit Reduction Coalition in-



PHOTO: DAVID WOODS

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John Albertine, president of the American Business Conference, wants the business community to unite behind responsible proposals to cut deficit spending.



cludes the U.S. Chamber, American Business Conference, National Association of Manufacturers, Business Round Table, National Federation of Independent Business, National Association of Wholesaler-Distributors and a growing number of trade associations.

John Albertine, president of the American Business Conference, says the coalition intends to identify budget cuts "that are responsible and doable politically."

The group is talking in terms of spending restraint that will build to the point where the 1989 federal budget would be 7.5 percent, or \$90 billion, under the \$1.2 trillion that the Office of Management and Budget now estimates it will be. The result—not as startling as that in the high growth scenario—would be a deficit of \$60 billion in 1989, down from last year's \$175 billion.

William Orzechowski, director of federal budget policy for the U.S. Chamber, says capital markets could finance a \$60 billion deficit without depriving the private sector of sufficient funds for continuing growth.

Efforts of the Deficit Reduction Coalition, as well as those of Citizens Against Waste, will concentrate on the two areas of greatest spending—social programs and defense—as the most fertile for saving the most money.

And both groups are likely to draw on the work of the Grace Commission, whose final report listed nearly 2,400 specific recommendations for savings.

The Deficit Reduction Coalition is expected to urge that Congress:

- Limit cost-of-living increases in various federal benefits programs to a lower percentage of the rise in the con-

sumer price index than the present 100 percent.

- Tighten in other way ways, too, benefits under the federal employees' retirement program, which is far more generous than most private pension plans.

- Hold increases in defense spending to 5.5 percent a year after inflation.

- Slow the sharp growth of Medicare costs through such steps as clamping down on fees, increasing premiums the elderly pay for hospitalization and setting higher deductibles.

- Tighten eligibility for, and improve administration of, entitlement programs such as welfare, which provide benefits to all individuals who meet income level rules without regard to overall spending ceilings.

- Modify or repeal the Davis-Bacon and Walsh-Healy Acts, which control wage levels that must be paid private sector workers employed under federal contracts for goods and services, including construction.

- Make substantial cutbacks in federal payments to farmers by reorienting agriculture policies toward the free market, targeting assistance to farmers suffering financial hardship.

- Limit interest rate subsidies provided under Farmers Home Administration and Rural Electrification Administration programs.

- Consolidate student loan programs, speed up loan repayments and cut back federal outlays for new education facilities.

A MAJOR THREAT to the success of the coalition's drive, members say, is the extent to which special interest groups will rally to protect their favored spending programs.

J.P. Bolduc, executive director of Citizens Against Waste, says one of its principal aims will be to counterbalance

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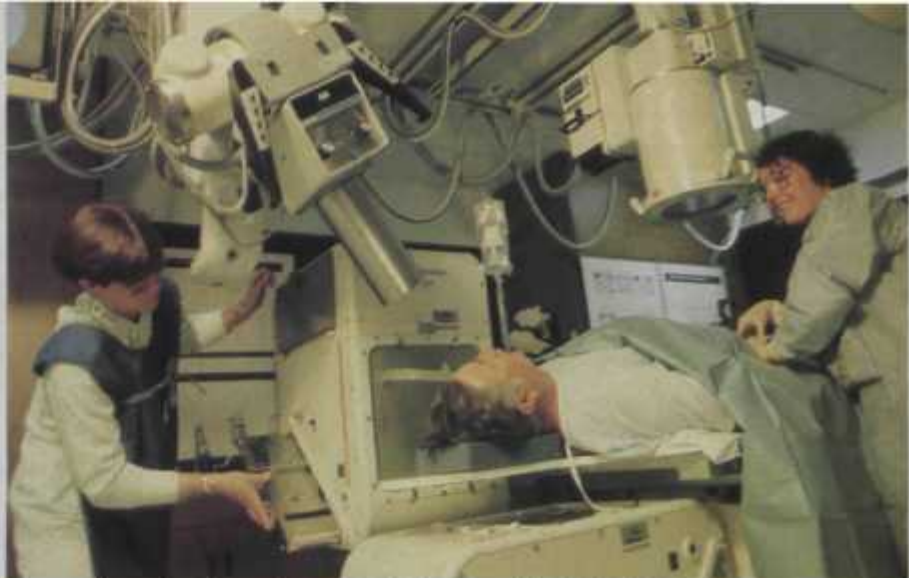
those special interests by rallying broad-based support.

"We will show that excessive spending and waste in government is not a partisan issue," Bolduc says. Directors of his organization include former Treasury Secretary William Simon, Sen. Jeremiah Denton (R-Ala.), Democratic Mayor Thomas Bradley of Los Angeles, and former senator and 1972 Democratic presidential nominee George McGovern.

Bolduc reports his organization's strategy is to mount a \$10 million advertising campaign on behalf of its goals at the same time that Congress is debating the budget. He says that 200 business executives will be speaking around the nation to rally sentiment against government waste and over-spending.

The Tax Reform Working Group believes that curbing spending growth is only part of the solution to deficit spending.

David Burton, a U.S. Chamber tax policy expert and a key member of the group, says that tax code changes could produce additional revenues through steps that would stimulate the econ-



Diagnostic service fees paid under Medicare could be limited by proposals to cut \$90 billion from deficit spending by 1989.

omy without increasing the tax burden.

"The issue is whether the tax code should be an instrument of social policy, or whether it should simply raise taxes in the most efficient way," Burton says.

The tax group is addressing three key areas:

- The falling level of voluntary compliance with the existing tax system.
- The extent to which business and individual decisions are based on tax

considerations, rather than the economic impact.

• The current level of marginal tax rates, which members of the group say are still too high and should be reduced to further encourage savings and investment.

In dealing with the compliance issue, members of the group are examining Internal Revenue Service reports that the Treasury is now losing nearly \$100 billion a year in unpaid taxes, compared

Those Disappearing Tax and Spending Cuts



Federal gasoline tax hikes helped to wipe out the 1981 tax cuts.

Business will be seeking firm guarantees next year that any tax and spending cuts agreed to by Congress actually materialize.

Recent congressional performance on that score has not been very good. Here is why:

• The historic tax bill enacted in 1981 at President Reagan's urging was to provide nearly \$1.5 trillion in relief throughout the decade. But it now appears taxpayers will net less than 1 percent of that.

• Congress promised \$3 in spending cuts for every \$1 of revenue increases in 1982 legislation billed as the Tax Equity and Fiscal Responsibility Act, but the actual outcome was a spending increase of \$1.16 for every \$1 of higher taxes.

• A 1984 tax increase measure touted as a down payment on deficit reduction was passed with assurances there would be \$2 in spending cuts for every \$1 of additional taxes. It is uncertain at this point what the final ratio will be.

The disappearance of promised tax relief is one of the compelling reasons for business' planned campaign for tax reform and spending cuts.

What happened to the 1981 tax relief? Much was lost to inflation, which pushed taxpayers into higher brackets, increasing their tax liability faster than their real income. (Starting next year, however, income tax brackets will be adjusted automatically to reflect inflation, thereby depriving the government of added revenues resulting solely from increases in the cost of living.)

Another major cause of erosion of the 1981 tax relief was higher Social Security taxes collected under 1977 and 1983 laws enacted to keep the system solvent.

Congress made further inroads on tax relief when it voted in 1982 to raise the federal tax on gasoline for the first time in 23 years. That levy was more than doubled—from 4 to 9 cents a gallon.

Here is how those and other factors add up over this decade:

Inflation-induced tax bracket creep	\$650 billion
Social Security tax increases	\$377 billion
Increases under 1982 "reform" act	\$311 billion
Higher gasoline taxes	\$ 28 billion
Increases under deficit "down payment" plan	\$101 billion
Other increases	\$ 9 billion
Total tax increases	\$1.47 trillion
Net tax cut	\$ 12 billion

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with only \$12 billion in 1976. Treasury officials say the reasons for that massive increase include widespread public perception that the tax code is unfair and excessively complex.

Many defaulting taxpayers feel, the government officials say, that others are able to avoid their tax obligations legally, and the defaulters tell themselves that they are only doing the same.

Another major element in the fiscal policy showdown of 1985 will be a test of the supply-side policies that Congress implemented in 1981 at President Reagan's urging and that have been highly controversial ever since.

THE UNDERLYING philosophy of these policies holds that the economy will flourish if individuals and businesses are given incentives, through lower taxes, to work, save and invest. The savings and investments, in turn, provide a capital pool for business expansion that creates jobs and markets, further fueling the expansion.

Critics of the supply-side approach argue that it never did work, that the

tax cuts simply triggered the huge deficits that now threaten to abort the recovery.

Supply-siders counter that Congress undermined their approach by reducing and delaying the Reagan-proposed tax relief.

At present, Democratic presidential nominee Walter Mondale's is the leading voice in arguing that the Reagan policies failed and that only a tax increase will restore the economy to long-term health.

But the supply-side forces are preparing proposals to implement their policies more thoroughly than was done in 1981.

Treasury Secretary Donald Regan is overseeing a tax policy task force, set up at President Reagan's direction, which is expected to call next month for a further reduction in the top marginal tax rate and for tax code simplification that might include a modified flat tax plan.

Under a pure flat tax, all income is subject to the same percentage tax



Supply-side economists advocate incentives through lower taxes for individuals to work, save and invest, in turn providing a capital pool for business expansion.

rate. There are no deductions, credits, exclusions or other offsets.

Most advocates of such a tax agree, however, that its enactment is a political impossibility. There would be extensive opposition to abandoning the present system of linking tax rates to income levels and to ending such popular deductions as those for charity and home mortgage payments or eliminating exemptions for dependents.

As a result, most discussions of a flat tax focus on a system that would retain different tax brackets—reducing the number drastically and lowering rates—but continue to allow the most politically sensitive deductions.

A further reduction in the top marginal tax rate, which was 70 percent on unearned income prior to the 1981 Reagan program, would represent another major advance for supply-side policies. The top rate is now 50 percent on both earned and unearned income.

The high growth scenario advocated by the U.S. Chamber's Rahn and Utt is also based on extending the supply-side approach. The two economists say:

"Almost everyone underestimated the strength of the U.S. economy for the last two years, particularly the strength of business investment and productivity growth.

"What this indicated was that the marginal tax rate reductions and the changes in capital cost recovery allowances had a much greater incentive effect than even many supply-siders had envisioned. There is no reason to expect these incentives to diminish . . . The renewed sense of opportunity has led to a burst of entrepreneurial vigor, a record number of new business formations and an aggressive venture capital market that has helped restore our technological leadership."

Whether the high growth policies the economists advocate become reality depends on political decisions in Washington, Rahn says. Policies that raise taxes, ostensibly to reduce deficit spending

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in the short run, will not work because they will lead to higher spending, he says. And, he says, they are likely to end the current economic expansion.

In addition to spending cuts, a common theme in all the various fiscal policy proposals being prepared by business groups for action next year is the necessity for strong unity among the sponsoring organizations.

ROBERT BUEHLER, chief Washington representative for the B.F. Goodrich Company and a member of the Deficit Reduction Coalition, concedes that accomplishing its goals will be "a tall order."

But, he adds, "everyone in the business community remembers what happened in 1981—a unified position served the general interest" by bringing about tax relief and other incentives that spurred the recovery.

Others recall the dictum of Bryce Harlow, who was Washington representative for the Procter & Gamble Company for many years and is considered the architect of the business coalition approach in influencing public poli-



A business coalition is expected to urge a lid of 5.5 percent above inflation on defense increases, as well as other cost-containment measures.

cy decisions. He held that "when the business community is united, little, if any, antibusiness legislation will be passed."

That view was spotlighted when a united business community brought about the tax relief law of 1981, but a divided private sector was unable to block 1982 legislation that rolled back much of the earlier gains.

An overall question that the various organizations pressing for budget re-

straint and tax reform must eventually face, however, is how all this will play in Congress.

A second Reagan administration is expected to be generally sympathetic to spending discipline, an area in which the present White House feels that it has already made some progress. President Reagan is reported to be planning to go over the heads of Congress and launch an all-out campaign next year for the American people's support of federal spending cuts.

The uncertainty lies in the makeup of the 99th Congress being selected this month.

"A lot depends on whether we are able to get back the 26 seats we lost in 1982," says Rep. Delbert Latta (Ohio), ranking Republican on the House Budget Committee. "If we do, I could see a coalition of Republicans and Jeffersonian Democrats—and a return to what happened in 1981, when we brought spending growth down from 17 to 6.5 percent."

Latta says he would like to hold spending growth—6 percent this year—to 5 percent next year and avoid the first \$1 trillion budget.

Says retiring New York Rep. Barber Conable, longtime top Republican on the Ways and Means Committee: "To create the appearance of evenhandedness, any spending cuts are going to have to be accompanied by tax increases. It is a fact of life that conservatives do not control Congress."

THE VARIOUS COALITIONS are hoping, at a minimum, for a political environment similar to the one that made enactment of the 1981 tax relief and spending cuts possible. Then, many House members whose political records indicated they would oppose such legislation sensed that political survival dictated support of conservative fiscal positions.

As 1985 approaches and the fiscal policy debate heats up, however, evidence on behalf of spending restraint will proliferate, usually in the form of horror stories describing what will happen if nothing is done.

This is one of them: Even with the present 6 percent annual rate of spending growth, the federal budget will reach \$2.5 trillion by the year 2000.

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Little Is Plain About Acid Rain

How much is Mother Nature herself to blame for this environmental problem? And how big a problem is it?



Industry groups like the Electric Power Research Institute have given acid rain study high priority. An EPRI scientist tests an Adirondack lake for acidity.

THE YEAR IS 1780, and Abner Hale, farmer, has just bought 1,000 heavily wooded acres in upstate New York. He intends to use 500 acres for cattle grazing; the remainder will be planted with a variety of crops.

Hale's immediate problem is clearing the land. He resorts to common practice and sets the woods afire.

Today, with that kind of land clearing in the distant past and sophisticated techniques in use to prevent the spread of naturally caused forest fires, there is a comparative dearth of forest fires in America's Northeast. According to one of many intriguing hypotheses, this dearth could be a reason why some lakes and streams in the eastern United States and Canada are feeling the ill effects of acid rain.

Theorists say that in the days of more prevalent fires, the naturally acidic forest floor would ordinarily absorb the alkaline fire ash. A lake within the burned area would have low acidity for several decades, keeping fish stock and other aquatic life alive and well until the forest grew back.

Acid rain has always existed. But there is no consensus on how much of the acidity in acid rain is due to human activity today and how much can be attributed to natural conditions like lightning, volcanoes and the acidic forest floor. And just how damaging is acid rain and to what, to whom?

Sulfur dioxide (SO_2) emissions from burning fossil fuels are transformed by atmospheric processes into acid deposits. No one knows how far the emissions are carried—600 miles, or as far as 1,500 miles—or whether a geographic area is affected more by short-range or long-range emissions.

A study by Congress' Office of Technology Assistance estimates that 3,000 lakes east of the Mississippi have suffered chemical or biological change because of acid rain deposits and that acidity levels in another 6,000 are at the danger point. The study puts comparable figures for streams at 23,000 miles and 60,000 miles.

Environmentalists insist old coal-fired utility plants, mainly in the Midwest, are primarily responsible for this acidity, which they say has decimated fish stocks and damaged forests. The solution, they say, lies in curbing the plants' SO_2 emissions. One method discussed would retrofit the plants with costly controls like those in newer plants.

The Natural Resources Defense Council maintains that acid rain hurts more than the natural environment.

NRDC's David Hawkins asserts that SO_2 and its products have accelerated corrosion and wear of bridges, highways, buildings and monuments; substantially reduced visibility in the eastern United States; and elevated levels of heavy metals in drinking water from wells and cisterns. In addition, he states, SO_2 could damage economically important crops and cause premature human deaths.

Seven-year-old amendments to the Clean Air Act require that all coal-burning power plants built after 1978 be equipped with stack-gas scrubbers or other technological devices to limit SO_2 emissions. The amendments set a pattern in which old plants are retired in favor of new equipment that produces cleaner air by gradual steps.

The Environmental Protection Agency reports that, nationally, total SO_2

emissions dropped 26 percent between 1973 and 1982. Over the same period, emissions from power plants decreased 17 percent, while the utility industry's coal use grew 52.5 percent. Furthermore, the EPA points out, nearly all of America's counties meet the federal ambient standards for SO_2 , despite economic growth and increased coal use.

"Current provisions of the Clean Air Act are reducing acid rain precursor emissions and should be permitted to work fully without any new legislation at this time," says Carleton B. Scott, chairman of the U.S. Chamber of Commerce's clean air subcommittee.

The Chamber, other business groups and the Reagan administration urge that before any requirements are imposed impulsively, research be stepped up on causes and effects of acid rain and into cost-effective means of controlling acid deposits, plus immediate stopgap measures like liming lakes and streams, where appropriate, to mitigate the effects of excessive acidity.

ALVIN W. VOGTLE, JR., president of the Southern Company, a utility, says the industry has to satisfy many conflicting demands. "We are not in the business of endangering human health or of creating an unfit environment," he says. "And we never will be. Of course, the public wants clean air and water. But the public also wants lower taxes, more industry and new job opportunities, less inflation and lower electric bills."

"We cannot have more stringent controls on power plants without the cost showing up in higher electric bills. That's why we must accept three difficult tasks. We must learn about acid



For the time being, business advocates the liming of lakes (left) to neutralize acidity. The rarity of forest fires like this one being fought in Montana could be contributing to the acid rain problem.



PHOTO: NEW YORK STATE DEPARTMENT OF ENVIRONMENTAL CONSERVATION

PHOTO: WIDE WORLD

deposition. We must define for the public the choices and costs indicated by what we learn. And we must recommend—to both the public and the government—policies that will achieve the best balance between goals and costs.”

A solution to the problem of acid rain has been a high priority for industry. For example, the Electric Power Research Institute, research arm of the electric utility industry, has spent more than \$25 million over the past six years studying acid rain and has earmarked \$75 million for additional research. Other monies are targeted toward a search for new technologies that can reduce emissions.

EPRI and organizations like the Hudson Institute, a think tank for public policy research, suggest that industrial pollutants in rain contribute only slightly, compared with natural acidity, to high acidity in lakes and streams.

WILLIAM BROWN, director of technological studies at the Hudson Institute, notes that only a small fraction of rain falls directly into lakes. Most of it first passes through a series of acidic or alkaline natural filters in the watershed. For example, the humus—plant or animal matter in the soil—filter can inject far more acid into the rainwater percolating through it than any amount of anticipated industrial pollution, Brown says. In fact, estimates are that the humus may contain as much as 1,000 times the acid that falls from the sky in a year.

The forests themselves are thus natural acid creators.

Fortunately, Brown says, the other filters—often several feet thick—through which the rainwater passes generally contain generous amounts of limestone and other alkaline substances to neutralize the acid. If they do not, the water remains acidic.

René Malès, vice president of the Electric Power Research Institute, says his research supports the theory that acid rain has a minimal effect. “We did testing in the Adirondacks to try to determine why lakes have different levels of acidity,” he says. “We found that while [acid] deposition plays a role,

much more important are the soil characteristics and the land’s natural systems—the biology around the lakes.”

In conjunction with the EPA primarily, EPRI has studied the effect of acid rain on crops. Malès says the research shows there is no significant effect of acid deposits on farmed soil, in great part because the soil is “managed by the farmer, who lays down lime and other buffers.” A recent study by the Council for Agricultural Science and Technology, a body of 25 food and agricultural science societies, reports similar findings.

And EPRI’s work on the impact of acid deposits on forests so far, Malès notes, has found that the acidification taking place “cannot be directly correlated with forest damage,” though further research is under way.

“Nobody wants people-caused acid rain,” stresses Harvey Alter, head of the U.S. Chamber’s resources policy division. “Nobody wants dirty air. Where the differences emerge on this issue is not on the goals but on strategies for reaching them.”

Without more precise information, says EPRI, there is no guarantee that reducing emissions will pay off in reduced deposits in the specific areas targeted. There will be no way to tell whether control of local or distant sources will be most cost-effective in protecting those areas deemed ecologically sensitive.

No one knows, says Alter, whether reducing emissions at the source by a pound would mean a pound less acid deposited elsewhere.

A study by Systems Applications, Inc., of San Rafael, Calif., found that a 50 percent reduction in SO_2 concentrations produces a less than 30 percent decrease in acid concentrations.

If Congress passes legislation in 1985 to require reduced SO_2 emissions from utility plants, a number of options will

be at its disposal, including requiring conversion to low-sulfur coal. Other choices include:

- Coal cleaning and direct limestone injection—they can achieve about 50 percent reduction at this time.

- Wet scrubbing—very costly, but the most reliable current technology for removing up to about 90 percent of the sulfur dioxide.

- Dry scrubbing—emerging as a cost-effective alternative to wet scrubbing.

- Fluidized bed combustion and gasification—currently under development for commercial application in the 1990s.

CONGRESS SHOULD stay clear of specifying the type of technology if it does vote for controls, industry says. “No single technical choice is best for all applications,” according to the American Institute of Chemical Engineers.

Environmentalists contend that the uncertainty surrounding acid rain should not deter Congress from implementing corrective measures immediately.

Says Gene Likens, director of the Institute of Ecosystem Studies at the New York Botanical Garden: “Much is known, and what isn’t known should not be used as an excuse for avoiding a difficult political decision.”

But the Hudson Institute’s Brown says: “I certainly agree that less sulfur dioxide emissions are better than more. But less spending is also better than more, especially when there’s a chance we’re spending to solve the wrong problem. Before doing any spending, we need to start thinking of acid rain as a scientific rather than a political issue.”

—Mary-Margaret Wantuck



To order reprints of this article, see page 97.

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The Kiplinger Letter 8/10/84

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Newsweek 8/06/84

"Across America, people are coming to a heartening conclusion with wide impact: inflation is under control at last. Ahead appears to be an era of continuing disinflation, as slowing price increases are called. The new confidence is not only adding a rosy glow to the recovery's prospects but also is promising pluses for many groups."

U.S. News & World Report 8/27/84

"Powered by the most vigorous economic expansion in 30 years, incomes continue to post solid gains all across the country."

Business Week 9/3/84

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Time 6/25/84

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Business' Missionaries To Government

Bigger government, more complex issues have meant hard work and a hectic life for corporate reps in Washington.

By Harry Bacas

A TYPICAL WORKING day for J. Richard Sewell, Washington corporate representative and lobbyist, starts with a swim and ends with a party.

Sewell's work day is more than 12 hours long, and what looks like recreation is actually part of his job. He swims each morning at the University Club with an industry lawyer, a high government official and two fellow Washington representatives. His party-going consists almost entirely of attendance at fund raisers for congressmen seeking re-election.

Well over a thousand government relations professionals work out of 491 corporate offices in Washington. Their number nearly doubled in the 1970s as consumerism, environmentalism and government regulation grew. Their common mission is to help their companies understand, anticipate and influence the welter of federal legislation and regulation.

Company representatives are part of

a larger group that includes law firms, public relations consultants, issue managers, labor unions, trade associations and single-issue organizations. In this larger group are Washington's 2,500 registered lobbyists and a still greater number of unregistered lobbyists. Twenty years ago a congressional committee called the business of influencing the government "a billion-dollar industry." The cost today is certainly greater.

Washington corporate offices range in size from one person to more than 200. The average is about six. The head of the office is often a company vice president, and salaries are usually a cut above those of middle management.

Sewell runs one of the smaller offices—himself and one secretary—although his employer, the Florida Power & Light Company, with 3.5 million customers, is the country's fifth largest electric utility.

When Sewell, a veteran of Capitol

Hill and national trade association work, opened the FP&L office 10 years ago, only three other utilities had Washington representatives (all were California electric companies, concerned with federal public lands issues peculiar to California).

Today 25 utility companies maintain Washington offices, a consequence of the growing federal involvement in energy planning and regulation.

Sewell says his company's main goal in Washington is "to try to make sure that the federal government—either Congress or the executive branch—doesn't do harm to the consumers of electricity in Florida."

Sometimes the company wins, as when it successfully opposed enactment of a \$5 a barrel oil import fee, and sometimes it loses, as when it unsuccessfully supported enabling legislation for interstate coal slurry pipelines.

FOLLOWING Sewell through a recent day gives a good idea of how a corporate representative works.

This day, as usual, his first stop after leaving home at 6 a.m. is the University Club. He swims there most days with the same group—a lawyer who specializes in energy, a couple of other corporate reps and the chairman of an independent federal agency. Government news usually figures in the conversation.

In his office before 8 o'clock, Sewell has little time to look at the newspapers, trade journals, *Congressional Record* and executive newsletters. Today is "industry day" at one of his trade associations, the Edison Electric Institute, located in the same building, and it starts at 8.

First there is coffee for a small group with a visiting congressional candidate from Alabama. Next a larger group hears institute staff members give a formal briefing on issues they have been tracking in Congress and in the agencies. The group then splits up for conferences on particular matters. Sewell joins a discussion of strategy on proposals concerning the inclusion of costs of ongoing construction work in the rate-base of a utility that wholesales power across state lines. If such costs are included, rates can be higher.

The meetings are over by 11 a.m., and Sewell heads back to his office for letter writing and

Dick Sewell (left) of the Florida Power & Light Company shows an environmental report to Chairman Don Fuqua (D-Fla.) of the House Science and Technology Committee.



PHOTO: T. MICHAEL REZA

phone calls, several to the Department of Energy. He has been following a Senate Energy and Natural Resources Committee hearing and tax hearings by the House Ways and Means Committee, but today he is too busy to attend either.

He has lunch at a restaurant with two National Coal Association officials to talk about their lobbying structure. FP&L has just joined the coal association. The company now burns oil and gas and operates four nuclear plants, but it is getting ready to add coal as a fuel for its generators.

After lunch Sewell sees that a new industry report on acid rain is distributed to key members of Congress, including Florida's senators and 19 House members. Then he has to phone his home office for cost figures on uranium mill "tailings" produced by the company's nuclear plants. The Edison Institute needs the data to argue the case against a proposal to raise the tax on tailings.

Sewell gives the figures to institute lobbyists and asks if he can help further. They decide that since the proposal is before the Senate Environment and Public Works Committee, which has no members from Florida, they will get someone else to work the job.

The law firm from which Sewell subleases his office has warned that it will soon need to take back his space. He talks to the building management about finding other space and notifies his home office that the rent will be going up. He still hasn't had time to read all the papers.

ON THE WAY HOME he drives his three-year-old Mustang to the Capitol Hill apartment of a fellow lobbyist, who represents a New England electric company. The colleague is holding a fund-raising party for a New York congressman and Sewell wants to help. This season Sewell has been averaging six fund raisers a week. One night he went to three.

Sewell gets home at 7:30 p.m., parks his car on the street and has dinner with his wife, Peggy, daughter Jane, 14, and son Michael, 8. He has been on the road for 13½ hours. After dinner he can finish reading the papers.

"Bribes, blondes and booze," says Theron J. Rice, Washington manager of government affairs for Conoco, Inc., "are ingredients in the popular image



Bryce Harlow, retired dean of corporate representatives, acknowledges applause of colleagues at a recent dinner.

of lobbying. But the dreadfully dull truth about lobbying is that its principal function is education, its principal commodity is information and its primary objective is persuasion."

Corporate offices have grown larger as regulatory issues have grown more complex and as congressional power has become more diffused.

Among the biggest corporate offices in Washington are those of General Motors, General Electric and TRW, each of which occupies two entire floors of a building.

General Electric, for example, has more than 200 employees, many of them specializing in a range of subjects related to state or federal government operations. The number is not surprising for a company with facilities in 50 states and 335 congressional districts. GE works 40 to 50 issues a year, some directly and some through trade associations. Most companies work 8 or 10 issues at most.

Xerox Corporation maintains only three representatives in its Washington office. Robert H. Scheersmidt, director of federal and state government relations, says the office is small because Xerox operates in an industry that has been relatively unregulated.

"I run this thing like a congressional office," says Scheersmidt. "The people at headquarters are our constituents. We try to cultivate that image and encourage everyone to call on us for services. We let the company operating managers set our agenda."

Scheersmidt says his office relies on using groups and associations rather than hands-on lobbying. "We work to help make our trade associations more effective," he says.

A more typical office is that of the

Ford Motor Company. Wayne Smithey, Ford vice president for Washington affairs, supervises 11 representatives. He is one of six registered lobbyists.

Smithey says the diffusion of congressional power has made corporate representation more complex.

"When I started 26 years ago," Smithey says, "you only needed to get the concurrence of the majority leader of the Senate, the Speaker of the House and maybe a committee chairman to get a proposal stopped or expedited. Now the fragmentation of power, especially since Watergate and the reform of the committee system, means you've got

to approach every member of Congress, both directly and through the grass roots. You have to deal on multiple levels. You also have to build a support mechanism in the home office to do thorough analysis of all the proposals that come up."

FORMER WHITE HOUSE adviser Bryce Harlow is often called the godfather or grand old man of Washington corporate representatives. Harlow, who retired five years ago, opened Procter & Gamble Company's first Washington office in 1961, after eight years as President Eisenhower's congressional liaison, adviser and speech writer.

Harlow once said of those days that "we raced about with baling wire and Elmer's Glue hitching up people and groups to fight this, pass that and amend something else."

But Harlow left "a standard of excellence and prestige for all of us," says GE Vice President Phillips Peter.

Dick Sewell is on the board of the Bryce Harlow Foundation, which was established several years ago to perpetuate Harlow's principles. It makes an annual Bryce Harlow Award to the corporate representative who has best met the standards Harlow set. Sewell also serves on the Business-Government Relations Council, a professional society of 90 Washington representatives.

Whatever changes occur, corporate representatives are probably in Washington to stay—because, in the words of a book by James Deakin, "lobbying is an integral and often constructive part of the legislative process, both as a source of information that Congress must have in the enactment of sound laws and as an outlet for the aims and desires of special interest groups." □



Listen to What Your Ears Tell You

By Elliott H. Berger

YOU ARE WALKING to work in the morning, lost in your thoughts, paying no heed to the cacophony that surrounds you: the chattering jackhammer ripping up the street... the wailing siren of the passing ambulance... the blaring horns of autos... the churning rock music that bursts out of the "boogie box" on a teenager's shoulder.

That kind of noise—and much worse—surrounds us almost all of our waking hours. But unless it forces itself on our attention—unless, say, it is so loud that it disrupts a conversation or is actually painful—we usually ignore it.

And by ignoring it we risk permanent damage to our ears—noise-induced hearing loss. It is a problem that cannot be treated medically, and hearing aids provide only partial, often unsatisfactory assistance.

The Occupational Safety and Health Administration requires employers to set up a hearing conservation program (including noise monitoring, hearing testing, and hearing protection) wherever daily average noise exposures exceed a certain level—85 decibels in the latest (1983) regulations. Nevertheless, according to the National Institute of Occupational Safety and Health, noise-induced hearing loss remains one of the 10 leading work-related diseases.

On top of the beating that many people's ears take in the workplace, they are bombarded by noise in recreational hours from guns, race cars, lawnmowers, chain saws, trail bikes, outboard motors, light aircraft, stereos and even crowds.

How can you detect a potentially

ELLIOTT H. BERGER is manager of acoustical engineering for the Cabot Corporation's E-A-R Division, which is headquartered in Indianapolis and is involved in hearing protection and noise control.



When you are near chain saws, guns and other loud noise makers, earmuffs offer good protection from hearing loss. Foam and premolded earplugs (inset) are also satisfactory choices.

harmful noise level? One important indicator is difficulty in conversation. If you feel the need to shout in order to be heard three feet away, the noise levels are probably 85 decibels or more and may be hazardous to your hearing.

Two other simple clues can help suggest whether you are getting excessive noise exposure. Immediately after you have been exposed to loud noise or music, carefully "listen" to your ears:

- Do you hear a ringing, buzzing or whistling in your head? This is called tinnitus, and, as in the reddening of sunburned skin, it indicates that a biological system has been overstressed.
- Do sounds seem dulled? Does your hearing seem less sensitive? This indicates what hearing specialists call a "temporary threshold shift"—a tempo-

rary loss of hearing sensitivity. If temporary shifts occur frequently, they will probably become permanent.

When either of these signals occurs, the rule is: If you must work or stay in noise, your ears should be protected.

Personal hearing-protection devices are of three basic types: earplugs, which fit into the ear canal; canal caps ("pods" or tips attached to a lightweight headband), which cover the entrance to the ear canal; and earmuffs, which fit over and around the ears and seal against the side of the head.

Earplugs and earmuffs give the best protection. Earplugs (about 50 cents to \$2) offer better long-term wearing comfort, and earmuffs (\$7 to \$20) are easier to put on and remove.

Canal caps (\$5 to \$10) are ideal for intermittent exposures because they can easily be hung around the neck when not in use.

Delayed-recovery foam earplugs are one of the best choices among plugs because you compress them in your fingers to place them in your ears; then they expand to provide a custom fit. They offer excellent protection with

a high degree of comfort. Premolded plugs are an alternative, but care must be taken to choose the proper size.

Generally, fiberglass, wax and putty-like plugs are less satisfactory because of their lower noise-reduction capabilities, messiness or poor retention in the ear canal. So-called "swimmer's earplugs" should be avoided.

If you prefer earmuffs, look for the smaller, light-weight models with foam cushions.

Protection devices can often be found in hardware, sporting goods and drug stores. Choose products that carry the Environmental Protection Agency's noise reduction rating label. This indicates they are intended for protection against noise and have been tested in an acoustical laboratory.

For most businesses, the only Risk Manager you'll ever need is your Independent Agent.

In today's complex world of assets protection, there's a lot more to protecting your business than just buying insurance. There are risk identification and reduction factors that can substantially lower the cost of protection; there is the self-insurance decision which if appropriate for your company can greatly enhance cash flow; there is a tremendous need for professional risk management in almost every business.

Yet, most businesses simply can't afford the luxury of putting a sophisticated risk manager—and probably a support team—on the payroll; the added cost would defeat the purpose. The good news is that for almost every small and medium sized business—as well as for many larger corporations—of which there are hundreds of thousands, the only “risk manager” you'll ever need is your local Independent Agent!

Independent Agents are highly trained in every aspect of professional risk management—from helping you to spot potential perils in your plant, to coordinating programs that reduce accidents and qualify you for safety group dividends. They can work with you to determine a

prudent level of self-insurance and recommend “stop-loss” coverage so that the claims never exceed your loss reserves. They can also secure conventional insurance protection for your business at the most competitive rates available, because they represent many insurance companies and can build the right risk management package with several “products.”

In effect, they do the “shopping” for you, just as a risk manager on your own payroll would. Best of all, your local Independent Agent never costs you a cent in increased payroll expense. Whether

it's for property and casualty coverage, or you need help with Workers' Compensation, Disability or Employee Benefits programs, the most knowledgeable

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it for me?"

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fiberglass features. What's more, Cummins Diesel powerplants have been integrated into some of the industry's best powertrains.

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Candymaker Gilda Brouthers says her firm owes its fast progress to a Control Data business center.

Incubators For Baby Businesses

By Sharon Nelton

SCARCELY seven months ago, Gilda S. Brouthers, a well-known commercial and industrial real estate agent in Charleston, S.C., diversified.

Brouthers, 61, turned her hobby—making hand-dipped chocolates—into a business, starting the Charleston Confection Company with three employees. Now she has seven, and six more are in training. The firm is already in the black, and Brouthers could not be happier. "This is a labor of love," she says.

In July, 1983, a year after he got a B.S. in computer science from the University of Illinois, Jeff Glickman started Advanced Analytics Corporation, a computer consulting and product development company in Champaign, Ill. Glickman, 24, made about \$9,000 on sales of \$85,000 his first year. He is projecting revenues of more than \$4 million this year. And he's the first to agree: That's incredible.

William E. Murphy's Chicago enterprise, W.E. Murphy & Company, designs and builds large exhibits for trade shows. Murphy, 47, quit his job as an account executive in another exhibit company to go out on his own two years ago. His business is profitable, too, and he anticipates revenues of \$500,000 this year.

As dissimilar as these entrepreneurs are, they have a common denominator. All are tenants of small business "incubators," facilities designed to help start-up companies survive the critical early stages of business development.

No two incubators are organized—or funded—alike. They range from 20,000 to 400,000 square feet and usually occupy renovated buildings, from schools to idled textile plants.

Some are initiated by local governments, others by nonprofit agencies and still others by universities anxious

to transfer basic research into new products and technologies. Others are established by corporations or private developers that see a chance to make a profit and help a community at the same time. Funds may come from private sources, venture capitalists, foundations, or local, state or federal governments.

Nobody seems happy with calling them "incubators." William C. Norris, chairman of Control Data, which has started 16 of them, complains that the word is "simplistic baby talk" and does not convey that they help create jobs by spurring technological innovation. Still, while they are called anything from technology centers to enterprise villages, the nickname persists.

INCUBATORS have been around for about 20 years but have only recently begun to enjoy a surge of popularity. Of the estimated 50 across the country, close to 90 percent have come into being since 1980. It is probably safe to say that dozens more are on drawing boards nationwide.

When the Small Business Administration's Chicago office announced a regional conference on the subject of incubators in August, it expected 150 registrants. But the meeting was swamped with people from all over the country. The SBA was able to accommodate more than 350 but had to turn 150 away.

If she had had to launch her business on her own, "it would take me at least three years to do what I did in six months," says Brouthers, whose chocolate factory is located in a Control Data Business and Technology Center. The center is a renovated cigar factory in a revitalized area of Charleston.

Incubators often offer their tenants flexible leases with rents way below market prices. Brouthers pays around \$5 a square foot for her space, including utilities and other services, and says the going market rate for such space is around \$15 a square foot.

Glickman, who is also in a Control Data facility, pays around \$8.50 a square foot, services and utilities included. The lower price is especially important to Advanced Analytics, he says, because "our business is computers, and they are expensive. We needed every penny of our minuscule capital to put into our business." He also likes being on the month-by-month lease that the center offers.

Murphy is in a nonprofit incubator, Chicago's Fulton-Carroll Center for Industry, where the rents are exceptionally low. Murphy's is \$1.56 a square foot (electricity and services extra) for his 15,000 square feet, and he says, "Isn't that wonderful? That is what helps you make it."

But incubator organizers and devel-

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Tampa	.94	1.31	1.08	1.12
Houston	.99	1.34	1.14	1.15
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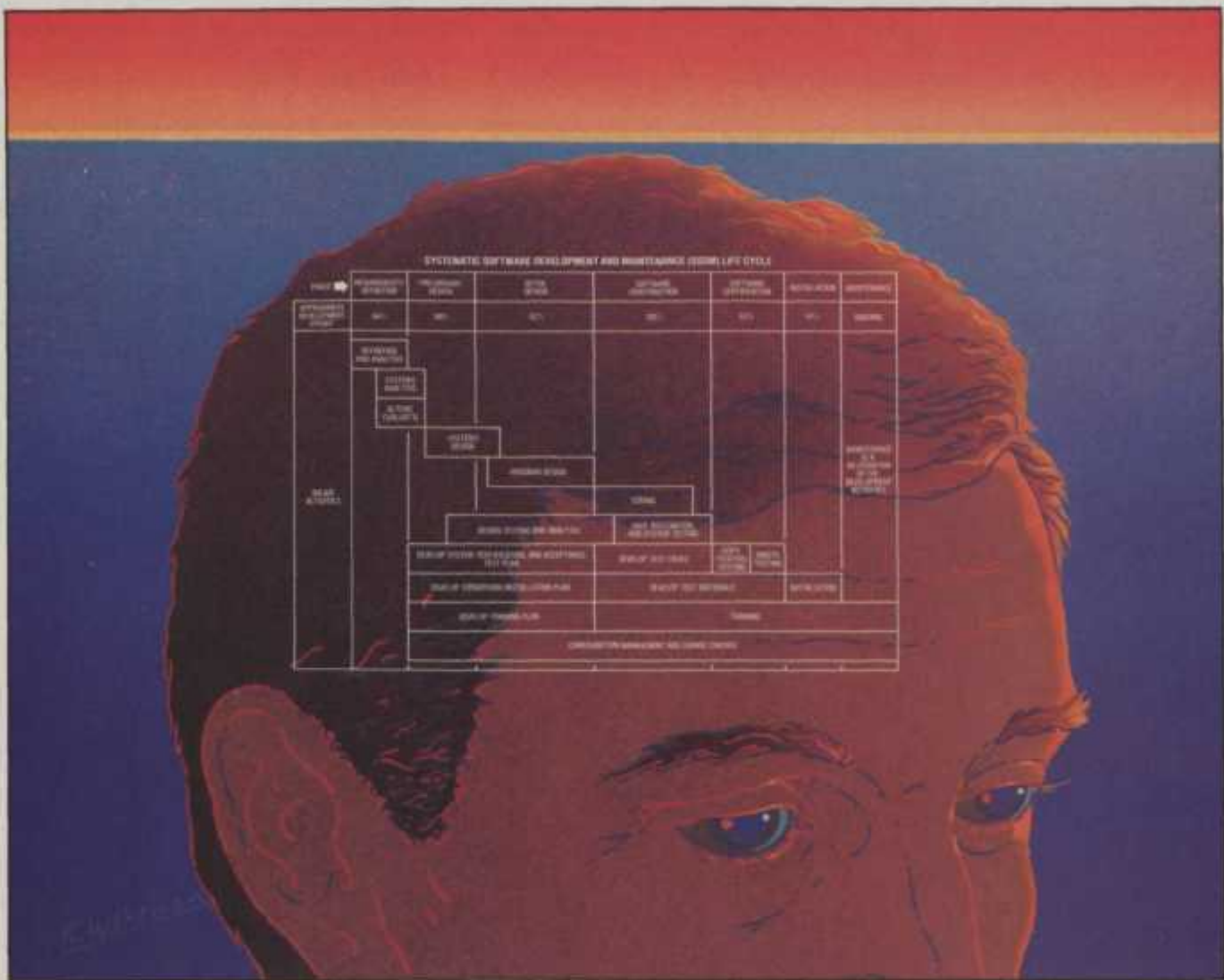
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opers emphasize that low rent is only part of an incubator's appeal. First and foremost, incubators offer environments that help small businesses succeed. Many provide management assistance, helping entrepreneurs develop business plans and get funding. Nearly all offer shared services—such as receptionist, secretarial help, telephone and mail service, word and data processing, a copying machine, and a conference room. Some offer seminars on business management. And all provide the opportunity for entrepreneurs to learn from one another.

"You could start in a basement and save a buck, but it is too lonely," says Loren Schultz, president of Technology Centers International, Inc., which operates four incubators. According to Schultz, a center creates an environment where "success breeds success." If you are going to run your first board meeting, he says, you can ask your peers how to do it.

Communities have been attracted to the incubator concept because of its potential for creating jobs and spurring economic development.

"People forget that starting an incubator with 10 companies with 10 jobs each is like starting a plant with 100 jobs," says Richard Durkin, a Small Business Administration regional administrator. Fulton-Carroll Director June Lavelle says the facility's 27 tenants and 11 graduates have created 253 new jobs since it opened in 1980. And according to one study, the 550 tenants who currently occupy the 16 centers started by Control Data Corporation account for more than 3,800 new jobs.

Incubators are also seen as a means of breathing new life into old—sometimes empty—buildings and of helping to revitalize depressed areas.

BOSTON'S Chinese Economic Development Council hopes that when its China Trade Center opens next year, it will transform a Chinatown neighborhood so rough that it is called the "Combat Zone." Twenty of the 50 businesses that will occupy the old Boylston Building (once a haven for adult book stores) will be stores of various types, in keeping with the Chinese tradition of a strong retail industry.

Norris of Control Data was among the pioneers in the private marketing of business incubators in the United States. His firm opened its first center in St. Paul in 1979. Schultz of Technology Centers International, Inc., had preceded Control Data by three years with his first center in Montgomeryville, Pa. TCI now has two other incubators in Pennsylvania and one in Minneapolis, and four others are in the works.

Schultz and Norris came out of the same entrepreneurial milieu. In the early 1950s both worked at Engineering Research Associates in St. Paul. ERA employees functioned as autonomous entrepreneurs in the invention of new products but used centralized services.

Norris left to found Control Data after ERA was acquired by Remington Rand. Years later, in 1969, Schultz left what was then Sperry-Univac to start Decision Data Computer Corporation. He built it to a \$40 million-a-year company and ran it until 1976, the year he started his first incubator.

Schultz does not locate his centers in blighted areas. "Our program is geared toward company development, not cen-

Money Isn't Everything in Choosing a Spot

If you want to locate your new business in an incubator, and there is more than one to choose from in your area, remember that the lowest rent is not everything. Incubator tenants say you have to look at the total package. Some factors to consider:

- Is the location right for you? A blighted area suits some tenants but not others. Do you need a central location, one that is easy for customers to get to? Is it important to have major highways or transportation nearby? Is the center zoned for your enterprise?

- What services are provided? What management assistance is available? (For example, can the center staff help you write a business plan or obtain venture capital, a grant or a loan?) Is group health insurance offered? Do you need typing, data and word processing, a receptionist, a conference room or a copier?

Be sure you pay for only what you need. Maybe you do not even need space right now, just an address and a telephone answering service. Can the center provide that now and be ready with space when you want to move in?

- Will the space accommodate your growth? If you need twice as

much three months from now, will it be available? Is storage adequate?

- What is the track record of the center's manager? Will he or she keep the facility running smoothly and see to your needs efficiently? If the manager is designated to provide the tenants with management assistance, what are his qualifications? What else can he do for you? (Some entrepreneurs praise incubator managers for their ability to get good publicity for tenants.)

- Are the physical facilities adequate? Do you need a loading dock? Is parking ample? Can space be retrofitted to meet your specifications—for example, do you need exhaust fans or humidity control? Is security sufficient?

- What types of tenants are in the center and how do they interact? Are there opportunities to learn from one another? Are there businesses within the center that might become your customers or that might provide you with needed services?

Incubator managers often recommend that some established businesses be included in a center so that start-up entrepreneurs have the benefit of learning from more experienced business owners.

Some tenants prefer a heteroge-

neous mix in a facility, but Robert H. Beckett, founder of Robec Distributors, a microcomputer distributorship, and an alumnus of an incubator in Montgomeryville, Pa., advises choosing a center where other businesses are in the same industry you are. That affords you a chance to be in constant touch with people familiar with your industry and its peculiarities, he says.

- What trade-offs are you willing to make? For instance, Patrick Spatz is president of Panelglide Exhibit Systems, Inc., in the Fulton-Carroll Center for Industry, which occupies a 93-year-old renovated manufacturing plant in a depressed area of Chicago. Spatz says he was willing to compromise on the appearance of the building and the neighborhood to get low rent, proper zoning, space for materials handling and a central location.

- What is the center's graduation policy and how will it affect you? Many incubators are willing to wait until the entrepreneur feels he has outgrown the facility and leaves of his own accord.

But other centers say a tenant must leave after a certain period—say, three years. Still others increase rents to market rates after a given period.

ter city development," he says. "But I will create jobs, and jobs have a favorable impact on development of the whole community." Because of his engineering background, he leans toward helping technology companies, but his centers are not limited to such firms.

TCI centers are locally owned. TCI charges \$20,000 to help a local sponsoring group start a center and insists on a continuing management agreement once it is established. Schultz and several partners sometimes retain a financial interest in a center.

Down the road, Schultz is looking for bigger returns. He is trying to establish a network of local venture capital funds and a national master fund that can invest in tenants that show promise for high growth.

TCI's program has designated a "champion" at each center—an outside adviser, experienced in business, who not only provides management assistance but who can also help an entrepreneur get seed and venture capital. The champion might or might not take an entrepreneur to TCI's venture capital network, depending on where the entrepreneur can get the best deal. "The key is that the entrepreneur has someone who will sit next to him and negotiate this with him," says Schultz.

Control Data owns and operates most of its business and technology centers.



Incubator founder Loren Schultz (right) coaches one of his tenants, William Mann of Sparrow Computer.

Last year, however, it began to franchise the concept to local governments and private developers. The basic license is \$50,000, to which consulting fees of \$25,000-\$50,000 may be added depending on how much assistance a sponsor wants in setting up a program. The annual franchise fee thereafter is \$15,000.

Proponents of incubators believe such centers will lower the failure rate

of start-up companies, generally about 50 percent in the first five years. Most incubators are too new to have a track record, but both TCI and Control Data report a failure rate of less than 10 percent among their tenants.

Ultimately, the idea is for the entrepreneur to graduate—to outgrow the center and become independent.

One who did is Robert H. Beckett, who in 1978 founded Robec Distributors, a firm that distributes microcomputers and peripherals. Beckett left his incubator—TCI's Montgomeryville Technology Center—after four years.

"Our organization was growing, and we wanted our own identity, a building where we could put our own shingle out," he says. "We could stand on our own two feet." Indeed, Robec has more than 40 employees and does nearly \$30 million worth of business annually.

Neither Jeff Glickman nor Bill Murphy see graduation in their immediate future, and neither does Gilda Brouters, who thinks it might be four or five years before she outgrows her center.

But the sexagenarian is making plans: "I am looking forward to buying my own land and building my own building."



To order reprints of this article, see page 97.

Questions? Some Sources of Answers

For one of the most informative and readable reports on incubators available, order *Business Incubator Profiles: A National Survey*. The 130-page booklet gives detailed descriptions of the more than 50 known incubators in the United States (Control Data's 16 are lumped together in one profile). It includes a brief history of each and such details as the size of the facility, the source of funding, the number of new jobs created and the types of tenants.

It is available at \$15 (\$5 for non-profit community-based organizations).

Write to the Hubert H. Humphrey Institute, Cooperative Community Development Program, 909 Social Science Building, 267 19th Avenue S., Minneapolis, Minn. 55454, or call (612) 376-9798.

A Small Business Incubator Conference will be held in San Antonio

November 29-December 1. It is aimed at corporations, local governments and nonprofit organizations interested in supporting small businesses, as well as universities looking for ways to spin off businesses from research.

It will offer information on how incubators work, how to finance them and how to develop one successfully.

Preregistration is \$80; on-site, it will cost you \$95.

For information, contact the U.S. Small Business Administration, Office of Private Sector Initiatives, 1441 L Street N.W., Room 720A, Washington, D.C. 20416, (202) 653-7880.

Available from the same address are two free resources: *Incubator Times*, a periodic newsletter, and the "Small Business Incubator Sample Information Package," which con-

tains newspaper clippings and other material on incubators.

Proceedings from an SBA Small Business Incubator Conference in Chicago in August are available on audio cassettes. Tapes of individual sessions are \$6 or the complete set of 19 tapes is \$110. Topics include the incubator from the tenants' point of view as well as case studies of six centers.

For an order form, write or call Duplicord, Inc., P.O. Box 242, Warrville, Ill. 60555, (312) 393-2600.

"Starting a Small Business Incubator—A Handbook for Sponsors and Developers" outlines the steps in developing an incubator and sources of help in starting and managing one. Write to Nancy Smith, Small Business Administration, Chicago Regional Office, 230 S. Dearborn Street-Fifth Floor, Chicago, Ill., 60604, (312) 353-4480.

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Several universities now offer an answer: a hot line ready to field questions about grammar, usage, formats and even persuasion strategies.

The school of business administration and economics at California State University, Fullerton, has a 24-hour business writing hot line—(714) 773-2704—staffed by faculty of the business writ-

ing program. The free service has been flooded with calls since its inception February 1.

"We seemed to tap a huge need," says Art Bell, the hot line's founder. "One article in the *Los Angeles Times* brought more than 500 letters of interest and support."

The result, he says, is that the hot line lists more than 100 of America's largest industries among its users. Almost 6,400 calls had been answered as of August 30.

Half of the calls, Bell says, involve simple matters of grammar and mechanics. "Business writers aren't sure about apostrophes, especially in *its/it's* (the latter is the contraction for *it is*). Commas also cause headaches.

"Many of us," Bell notes, "were mistaught to put a comma wherever we would pause for breath."

The remaining calls are more complex. "A chief executive officer called," Bell says, "to read his introduction to an important speech. He simply wanted

Ten Fatal Ills in Business Writing

... and what to do about them

1. Anemic Verbs (is, are, was, were, seems to be)

Not: It is the policy of this company to promote creative thinkers.

Instead: This company promotes creative thinkers.

2. Impotent Verbs (passive constructions)

Not: The account was handled carelessly.

(The perpetrator can escape visibility if passive constructions are used.)

Instead: Jack Bevins handled the account carelessly.

3. Atrophy of the Position of Emphasis

Not: There are two financial packages suited to our needs.

(Initial strong position wasted on meaningless words)

Instead: Two financial packages suit our needs.

4. Distended Sentence Length

Not: While seven of our managers at the midlevel range object to the idea of moving our corporate offices, the majority of our senior staff is agreeable to the move and sees it as an opportunity to live in the sun belt.

Instead: Seven midlevel managers object to moving our corporate offices. Most of the senior staff, however, welcome the move as a chance to live in the sun belt.

5. Contagious Prepositions

Not: We ran an advertisement in a trade journal in May for a manager of the sales division at our subsidiary in Wisconsin.

Instead: "Sales manager," "Wisconsin subsidiary" (Combine prepositional phrases into adjective/noun combinations)

6. Hypertrophy of the Noun

Not: The unification of companies will prove beneficial to the establishment of financial arrangements more conducive to solvency and profitability.

(Avoid swollen Latinate nouns)

Instead: Merging our companies will help solve our money problems.

7. Slow Sentence Pulse

Try mixing Subject-Verb-Object sentences with other types:

Frustrated, Jerry wrote a scorching memo.

(-ed beginning before the subject)

The storeroom, long an eyesore on the fourth floor, is scheduled for remodeling.

(Subject, break, verb)

His taxes were due, but his wallet was empty. (Subject/verb, then subject/verb)

8. Obese Paragraphs

Try "easy in and easy out," using very short paragraphs at the beginning and end of business letters, memos and short reports.

9. Noun Clots

Not: Please write a minorities opportunity evaluation report.

Instead: Please write a report evaluating opportunities for minorities.

10. Spastic Repetitions

Not: We reviewed the benefits package. The benefits package provided for...

Instead: We reviewed the benefits package, which provided for...

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objective feedback." One of the first hot line users was a midlevel manager for a major aerospace company. He needed help composing a letter asking for a raise. Two weeks later, after receiving an \$11,000 raise, he called again, to thank the hot line staffers.

The most frequent question is how to address a group of men and women in a business letter salutation. "Instead of the stiff 'Ladies and Gentlemen,'" Bell says, "we suggest use of titles and company affiliations: 'Dear Members of the Board' or 'Dear Directors at Microdata.' When the last name but not the sex of the reader is known, the job title can come to the rescue again: 'Dear Supervisor McCoy.'"

Judging from the Fullerton experiment, the hot line pays in several ways. Businesses benefit by producing clear, effective documents. Faculty members who staff the hot line keep up with fresh, real-world concerns that they can carry directly into communication classes. Finally, universities and business schools reap the goodwill of the business community—goodwill that has already resulted in unsolicited financial support for the CSUF effort.

Fullerton's hot line is hardly the first. In the South, John Stratton, a professor of English, and his colleagues staff a

five-year-old writer's hot line—(501) 569-3162—at the University of Arkansas, Little Rock. Like its Fullerton counterpart, the Arkansas hot line receives calls from throughout the country and Canada.

AT TIDEWATER Community College in Virginia Beach, Va., Donna Friedman directs a grammar hot line, (804) 427-3070. The Tidewater line is available to the general public, but Friedman estimates that "well over 50 percent of our calls are from businesses." The most frequent question in Virginia? "Whether to use *is* or *are*," says Friedman, "especially in sentences with double subjects connected by *or*." (In such cases, the verb must agree with the subject closest to it: "The union representative or the workers themselves are welcome to attend.")

Perhaps the most ambitious hot line, and potentially the most useful to businesses, is getting under way at the University of Southern California's business school. J. Douglas Andrews, chair of the department of business communication, describes the service, scheduled to begin November 1, as an eventual "electronic Grand Central Station." In addition to phone queries, users would be able to flash whole documents

to USC's computer. There they would be reviewed and revised by content area specialists, and electronically returned.

This hottest of the hot lines will necessarily involve a fee, Andrews says—probably a combination of subscription and use charges. "We like to think of the charge as a net savings to businesses. Unintelligible letters, shoddy reports and amateurish proposals are the real expenses now being paid, in terms of damage to companies' profits and images."

Can hot lines change the way business people write and speak? "By themselves, no," Bell of CSUF admits. "They provide bandages for a major business problem. Even the best hot lines are no substitute for solid instruction in writing and speaking skills."

Businesses seeking a writing hot line close to home can obtain a free directory by sending a stamped, self-addressed envelope to the Grammar Hotline, Tidewater Community College, 1700 College Crescent, Virginia Beach, Va. 23456. Business schools and English departments interested in establishing a hot line can write Art Bell, Co-Director of Business Writing, California State University, Fullerton, Calif. 92634.

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A "Freeze" That Can Put The IRS Out in the Cold

Do you want to keep control of your family business but still limit estate taxes' bite? Here is a way to do it.

By John E. Hempstead



GEORGE FIELDING beamed proudly at his daughter Andrea as she presented the next year's budget for Fielding Controls Corporation. George had founded the company 30 years earlier, not long after Andrea's birth, and had guided its growth virtually singlehanded until recent years.

He knew he would leave the company in good hands when Andrea took over after he retired.

Fielding Controls was worth about \$3.5 million. George owned 85 percent

of the company's outstanding common stock, worth about \$3 million. Andrea owned the rest. At 62, and with a family history of longevity, George figured it would be 15 years or more until the rest of the stock in Fielding Controls passed to Andrea through his will. George would be able to give her some shares over the coming years under his \$10,000 annual gift tax exclusion, but at best, this would permit him to transfer only a tiny part of his holdings.

Andrea was doing a good job of making the company grow, and chances were that Fielding Controls would double or triple in value before it passed into her hands. The estate tax, of course, would be a whopper—almost 50

percent of the company's total value. George shook his head as he reflected that the better the job Andrea did, the greater the company's value would be at the time of his death, and accordingly, the greater the tax bite Uncle Sam would take.

About a week later, George was having lunch with Bill Claggitt, an attorney who had been a trusted adviser to the Fielding family for many years. George described the dilemma Andrea faced—the harder she worked to make Fielding Controls grow, the larger the estate tax chunk that would come out of her inheritance. He asked if he could do anything to prevent this from happening. "Sure," said Claggitt. "Have

JOHN E. HEMPSTEAD is president of Hempstead & Company, a valuation consulting firm based in Haddonfield, N.J.

What Will You Do When the IRS Suddenly Wipes Out Your Corporation's Tax Shelter Benefits?

All your many tax benefits of owning a corporation could be wiped out overnight. How? The I.R.S. could visit you and claim you have not kept proper corporate minutes. You could lose the very tax benefits to which the law entitles you.

Banks, insurance companies and various state and federal agencies, besides the I.R.S., all require notarized authorizations to grant loans, buy property and equipment, enter into leases and even to sell assets. And other problems can be equally devastating. The reason? The owner didn't document important transactions. The small business owner simply has to "Get It In Writing".

Here are some recent "horror stories" direct from actual court cases.

Joseph P. obtained a loan from his corporation without the proper loan documents and corporate minutes. As a result, the court required him to pay additional taxes of \$27,111.60. He narrowly escaped a penalty of \$13,555.80.

B.W.C., Inc. was forced to pay \$106,358.61 of accumulated earnings tax because its corporate minutes were incomplete. They expressed "no specific, definite, or feasible plans" to justify accumulating earnings, according to the court.

Keeping records has always been a bother, and an expensive one, especially for small companies. Most entrepreneurs do not like to spend time keeping records. Probably because no one ever became rich by keeping records. And in a small, one-person business, it seems downright silly to keep records of stockholder meetings and board of directors meetings... keeping minutes... taking votes... adopting resolutions... isn't it all just a waste of time?

Not if you ask any of the thousands of entrepreneurs who have lost fortunes because they failed to keep records. You should look at corporate record keeping chores this way: *It's part of the price you pay to get the tax benefits and personal protection from having a corporation.*

A corporation does not exist except on paper, through its charter, by-laws, stock certificates, resolutions, etc. Anything you do as an officer or director has to be duly authorized and evidenced by a resolution of the stockholders or the board, or by both in some cases. It makes no difference if there is only one stockholder or one million stockholders. The rules are basically the same.

You can hire a lawyer, like the big companies do, and pay \$100 or more just to prepare one form. But you may need, at minimum, a dozen or more documents to keep your corporation alive and functioning for just one year. This type of work is the bread and butter for many corporation lawyers. Most of the work can be done by their secretaries, yet they will charge you enormous sums because they know how important the forms are to you and your business. Lawyers know

that the I.R.S. will insist that you have the corporate records to prove that you are entitled to all the tax breaks from having a corporation.

There is now a way for you to solve your corporate recordkeeping problems. Without a lawyer, without paying big fees, and without spending a lot of time. It is truly **The Complete Book of Corporate Forms**. It was prepared by Ted Nicholas, author of the best-seller, *How To Form Your Own Corporation Without A Lawyer For Under \$50*. This book has become the largest single source of new corporations in America. His book has revolutionized the business of forming new corporations by making the process simple, easy and inexpensive.

But forming a corporation is only the first step toward building "the ultimate tax shelter." Through carelessness or neglect, many people are denied their rightful benefits from owning their own corporation. Ted Nicholas saw that many business owners needed more help after they incorporated. They didn't know how to follow through, how to turn their corporation into the ultimate tax shelter.

And so, he prepared **The Complete Book of Corporate Forms**. Virtually all the forms you will ever need are all ready for you. Everything is simplified. Either you or your secretary can complete any form in minutes. All you do is fill in a few blanks and insert the completed form in your record book. When you own this book, you are granted permission to reproduce every form. If you are behind on keeping good corporate records, now you can catch up in no time. Just complete a few blanks for the things you've already done in the company. It's legal and it works. Best of all, the price is less than you would pay a lawyer for one hour of counseling.

Here is just a sampling of what you'll receive:

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Minutes of Special Meetings

(Any of these can be used if you are the only stockholder and director.)

Amendments to Articles of Incorporation

Amendments to By-Laws

Changes in Membership of Board

You will also receive all the stockholder and directors resolutions you will need to take any major business action, including:

- Negotiation of contracts • Authorizing loans to corporation • Approval of corporate loans to you • Designation of purchasing agent (some suppliers may want to know who is authorized to buy from them) • Setting your salary • Directors fees • Authorizing your expense account • Mergers • Sale of corporate assets • Dissolution • Bankruptcy • Declaring dividends • Appointment of attorney or accountant

Plus, you'll receive the forms needed to authorize any of these tax-saving fringe benefits:

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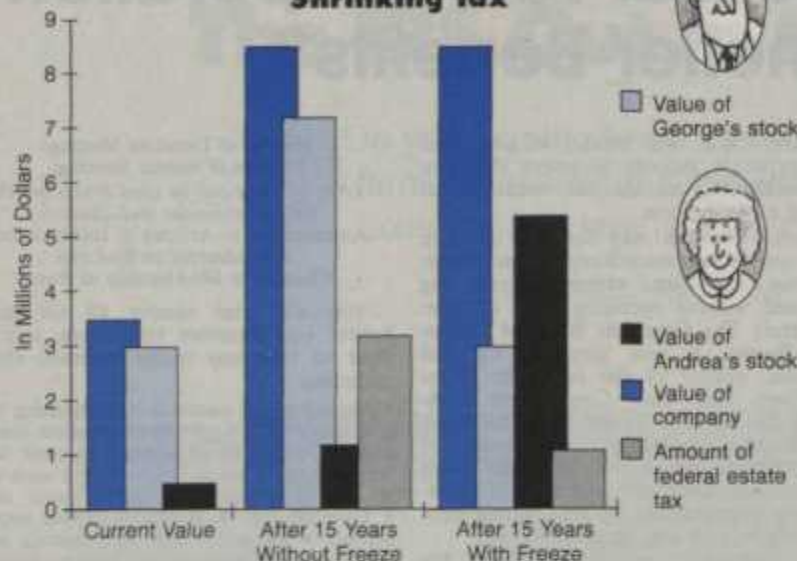
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Growing Business, Shrinking Tax



you considered a preferred stock recapitalization?"

"How does that work?" asked Fielding.

Claggitt explained that a preferred stock recapitalization would be a way of freezing the value of George's holdings in Fielding Controls. The technique is sometimes called an estate freeze. It is based on the principle that when a corporation has preferred stock outstanding, the value of the preferred stock will never grow, no matter how well the company does.

This is because the dividend rate and redemption price of a preferred stock—the main determinants of its value—are fixed. Common stock, on the other hand, grows in value as the company grows—the stock's value is related to earning power and potential dividends.

CLAGGITT EXPLAINED that to accomplish an estate freeze, George would exchange most of his common stock in Fielding Controls with the company for an equal amount (in value) of newly issued preferred stock. He would then transfer to Andrea any common stock he still held after the exchange. The common stock involved in the exchange with the company would be retired.

As Fielding Controls grew in revenues and earning power in the future, its common stock would also grow in value. Since all the common stock would be owned by Andrea, all the growth in value would take place in her holdings in the company, rather than in her father's.

George would hold only preferred

stock. Although the preferred's value would fluctuate over the years in response to fluctuations in interest rates, it would be unlikely to stray far from its redemption price, which normally would be at or close to the original issue price.

Assuming that George's preferred stock holdings were worth \$3 million both at the time of issue and at his death, the Internal Revenue Service would collect an estate tax on only the \$3 million worth of preferred stock. The balance of the company's value would, in effect, have passed directly to Andrea, free of estate taxes.

Assuming that Fielding Controls grew in value at only 6 percent a year over the next 15 years, the value of George's holdings in the company without the freeze would grow from \$3 million to more than \$7 million. By using a freeze, however, George could keep more than \$4 million of value out of his estate. The reduction in estate tax brought about by the freeze would thus be about \$2 million, based on the top federal estate tax rate of 50 percent that will, under current law, be in effect beginning in 1988.

"That sounds like a great idea from a tax planning standpoint," said George, "but wouldn't I be giving up control?"

"No," said Claggitt. "I can structure the transaction so that the preferred stock will continue to maintain voting control for you as long as you live. On your death, control of the company would automatically pass to Andrea."

"What about my other daughter?" George didn't often speak of his other child. She had disappointed him by run-

ning off to Canada with a rock musician. "I want to leave her well provided for too, but it wouldn't be fair to give her any voting interest in the company when Andrea is doing all the work."

"We can split your preferred into two classes," said Claggitt. "One would be nonvoting preferred that you can leave to your daughter in Canada. The dividends on the preferred will provide her with income. The lack of voting rights will keep her out of Andrea's hair."

"What about the dividend required on the preferred stock?" said George. "I hate to saddle the company with such a large fixed obligation."

"We can make it noncumulative," said Claggitt. "That way, it's possible to skip a dividend in a lean year without the company's having to make it up later on."

NAMES AND DETAILS in the Fielding Controls story are fictitious, but its basics are from the real world. The story is a composite of a number of actual cases. As the story illustrates, estate freeze recapitalization is a flexible technique. It can provide both substantial estate tax savings and an orderly means of passing family ownership and control of a business from one generation to the next.

Recapitalization of an operating company is the most common form of estate freeze. But a freeze can also be accomplished by forming a holding company or family partnership and placing in it the assets to be frozen. The senior generation receives preferred stock or fixed-value partnership interests, and the junior generation receives equity interests.

Such holding companies or partnerships are particularly useful in freezing the value of holdings in marketable securities, real estate or other nonoperating assets.

For obvious reasons, the estate freeze has become a popular estate planning tool. If you are considering using one, however, be aware that a number of tax and valuation issues must be carefully taken into account in the design.

A carelessly structured freeze is vulnerable to Internal Revenue Service challenge on several grounds. For example, it is essential that the value of any preferred stock issued in a recapitalization be equal to the value of the common stock exchanged for it. If the two are not equal, unintended gift tax or income tax liability can result.

A freeze transaction should be undertaken only with the help of competent legal, tax and valuation advisers. But done properly, it may solve a lot of your estate planning problems. □



To order reprints of this article, see page 97.

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Open spaces are part of the quality of life that draws employees to high tech companies in Colorado Springs.



SPECIAL REPORT: ECONOMIC DEVELOPMENT

Company Meets Community: Long Courtship, Happy Marriage

THE CHAIRMAN of the board walks up to a map of the United States, closes his eyes and jabs his cigar at a spot. His secretary examines the name of the town nearest the ash stain and lets everybody know where the company's next plant will be.

That is not a scene from the real world.

Life was never so simple, and economic development has grown more and more complex over the past 20 years as a host of factors such as transportation costs and environmental concerns have taken on new importance when a business decides where to move or expand.

A company's initial step in searching for a suitable future area must be to define the purpose and timing of a move, experts say. Not only should the goals be clearly stated, but all related members of the organization should agree on them.

Experts say formation of a committee—small enough to be efficient—within the

A dependable supply of competitively priced power is important to energy-intensive plants.

PHOTO: JAMES COOK—PICTURE GROUP



Good schools are an asset in the site selection process.

company to oversee the project is also an important early step. The committee should include members of the real estate, construction and financial departments, if the company has them.

Most companies have found that successful site selection depends on careful consideration of these factors: transportation, labor costs and supply, community characteristics, utilities and financial incentives.

TRANSPORTATION, sometimes overlooked in the past, has come into the spotlight because of overwhelming increases in cost. Studies show that transportation and distribution expenses for all industry increased 120 percent from 1978 to 1983.

Such transportation hubs as the Atlanta and Kansas City regions use their distribution channels and centralized locations as prime industrial development incentives.

Companies serving the large California markets have found communities in Arizona to be practical sites because of that state's good transportation record and cheaper operating costs. Moderate taxation, reliable utility services and co-operative government are added pluses to those businesses serving the surrounding markets.

Manufacturers in need of a specific type of work force must know current unemployment rates, labor history, training and wage levels in the possible site area. Communities with high unemployment, no unions and low wage scales are attractive to companies in labor-in-

PHOTO: KEVIN MORAN—PICTURE GROUP



Transportation routes are the prime consideration for many manufacturing and distribution operations, making air and rail hubs magnets for economic growth.

tensive businesses. As important as low operating costs is uninterrupted, reasonably-priced electrical service.

A particular site can stand out because of the financial assistance a community offers. Industrial revenue bonds—tax-exempt bonds backed by a state or local agency—are the most common financial tool used by communities to finance industrial growth.

Some areas have recognized the need for diverse types of financing such as grants and loans. Communities should also be aware of federal funds that are applicable to local development projects.

Superior financial service can set a community above its competition. The Pennsylvania Development Authority, for example, has financial programs to

suit all types of projects from new businesses to energy and high tech industries. "We have the financial expertise plus excellent service capability," says Mike Moyers, deputy press secretary of the state's department of commerce. These programs have significantly improved the state's industrial base.

The New Jersey Department of Commerce and Economic Development is also concentrating on financial incentives to attract new businesses. It is the nation's leading issuer of developer loans and bonds, with \$4.5 billion outstanding. This centralized economic development authority offers full-service financial support that consolidates all information and services.

After a company's needs are defined, a company selection team can eliminate



ONCE EXECUTIVES MOVE TO ALABAMA, THEY MAY NEVER WANT TO LEAVE.

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"Savored the excitement of the Alabama International Motor Speedway or championship college football.

"Is it any wonder that when executives take a good look at Alabama, Alabama looks mighty good?"

"If you'd like to combine a great business opportunity with having the time of your life for the rest of your life, call or write

me or my staff at the Alabama Development Office for more information."

Yes, Governor, Alabama sounds like the kind of state where I'd like to get down to business.
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areas through the use of special studies supplied by various sources.

A local development authority or corporation can be of help at this stage by setting up appointments. Companies may find a difference in tours, briefings and other services communities offer. These differences can be good indicators of what kind of aid can be expected in the future. To gain a better fit in a community, companies can hire real estate consultants with expertise in the area.

WITH THE SELECTION process narrowed to just a few sites, the selection committee can thoroughly investigate each. To its original criteria, the committee now can add factors like the quality of life in the community (schools, recreation, climate, cost of housing), site costs, site preparation, possible future expansion and market growth.

After reviewing all the final possible locations, the selection committee can make a recommendation to management. The committee should try to gain commitments from the city that it will be allowed to expand on its site at a later date before taking steps to secure an option to buy the site, experts say.

The site selection process is subjective, and companies generally take their time about it. Surveys of companies that have moved recently show that the average time from first inquiry to final implementation of the decision has doubled from 18 months a few years ago to three years today.

While business concerns have always been most important in a site selection process, the pro- or anti-growth attitudes of the people who live near a potential new site are increasingly significant. Through tax laws and legislation on industrial financing and workers' compensation, state policy makers are playing an increasing role in determining a state's posture toward business.

Businesses must now scrutinize the political attitudes of states and local entities to judge an area's stance toward business development, experts say.

Most company officials agree that the political nature of a state is not a major consideration but can help a company decide between similar sites when the political makeup affects the business climate.

Florida has an enviable record. It has attracted 669 new or expansion industrial facilities in the past three years. The state's most significant business advantage is its tax policy, which offers credits and exemptions on a wide range of incentives, including a \$5,000 exemption on the 5 percent corporate profits

NATION'S BUSINESS



California's Silicon Valley has had breathtaking growth in high technology as academic support and venture capital provide a rich environment for start-ups.

tax, tax exemption or tax moratorium on land or capital improvements, and tax credits for the use of specified state products.

Of the 14 tax incentives for industry listed in *Industrial Development* magazine's annual Legislative Climate Report, Florida offered 13. Like other Southern states, Florida has maintained a right-to-work law forbidding compulsory union membership in a

workplace. Tight guidelines keep its workers' compensation fund consistently in the black, and the business community is offered fair standards for claims.

The Florida legislature also passed an enterprise zone bill in 1982 to offer tax concessions and job training to companies that locate in depressed areas. The law helped create the economic and social environment necessary for indus-

Procedures in high technology manufacturing require sophistication in precise techniques, usually in "clean" rooms free from germs or static.



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trial investment in areas designated by local governments as enterprise zones.

The state's favorable business climate is reflected in the record of its national political leaders. The voting records of its 19 congressmen (10 Democratic, nine Republican) received an aggregate 63 percent favorable rating from the U.S. Chamber of Commerce for March, 1983, to February, 1984.

Recently, however, Florida's introduction of a unitary tax, which levies a tax on a portion of a firm's worldwide earnings, has raised questions about its business climate. Revocation of the unitary tax is being pursued by some Florida legislators.

MAJOR REGULATORY bills can turn a relatively politically indifferent corporation into a legislative watchdog. Companies seeking to locate a plant site may side with a state like Florida—which does not have a plant closing bill setting requirements before a factory may be closed—over a state like New Jersey, which has a plant closing law.

The normal site selection process has the inherent capability of ruling out states with distinctly unfavorable legislation. In making the site choice, it is implicit a company would not locate a large labor-intensive manufacturing concern in a state with union unrest and no right-to-work law. The pro-

anti-growth biases of government leaders would also be a concern in terms of future growth and expansion.

Environmental legislation may be a point of growing concern among businesses as states across the nation tighten regulations. New York attracted more than 200 new or expansion facilities in the first six months of this year. The reasons for this success include attractive labor, transportation and capital financing conditions as well as tax credit and tax exemption legislation.

These laws have successfully overshadowed the introduction of regulatory bills in the state legislature. According to consultants for the New York State Department of Commerce, site selection teams are becoming more concerned with the legislature's expansion of the list of occupational diseases eligible for claims.

Communities in Kansas have employed the attractive industrial revenue bond legislation passed by the state legislature in the 1960s, which does not require local governments to hold referenda before issuing bonds.

Vermont has taken a different approach to attracting new business. The state legislature opposes offering tax abatements, exemptions and credits or any "give-away" programs. The state's Department of Economic Development is not inhibited by this. Instead, it emphasizes good transportation to major

Precise Goals Found a Honeywell of a Place

The process followed by Honeywell Inc. in deciding where to locate a manufacturing plant for electronic circuits illustrates the need for specific goals. "We had a list of 10 cities," recalls Honeywell spokesman John Budd.

The Minneapolis-based company needed low-cost energy and a highly trained work force. The company devised a weighted scale to measure the various attributes of the cities under consideration.

Colorado Springs, Budd says, came out at the top of the list, because its proximity to Wyoming's low-cost coal is important to an energy-intensive industry, because its mild climate minimizes energy consumption and because its quality of life makes it attractive to prospective employees. "We were interested in being able to attract expansion talent," Budd says.

The plant opened in Colorado Springs in June, 1974, and had 60

employees by the end of that year. Today 850 people work at the facility, which has been expanded several times.

"We've been expanding ever since we've been in town," Budd says, and over the years Honeywell has had plenty of company.

When Honeywell moved to Colorado Springs, the Hewlett-Packard Company had a factory that has since been expanded. Since Honeywell arrived in 1974, Digital Electronics Corporation, NCR Corporation, United Technologies Corporation and Ford Aerospace & Communications Corporation have all located high technology operations in Colorado Springs.

As each company built a facility, in part to take advantage of the experienced work force there, the area became even more attractive to other high tech firms and the professionals they must have to run their businesses.

markets and exemptions from excise, inventory and new equipment taxes. "We feel there are lots of good companies willing to pay the taxes," a department spokesman says. "We aim to treat everybody fairly and equitably."

STATE LEGISLATURES are currently trying to react to the changing economic environment to compete for future industrial investment.

Some states are altering their workers' compensation programs, for instance, to make them more favorable to business and less liberal with payouts and claims. Health and occupational acts are also becoming more of a topic in state legislatures.

But it takes a lot more than economic development legislation to entice businesses.

Significant shifts in the private sector have altered the ways communities try to attract new industry. But the attempt to draw new business has always called for areas to set themselves apart from their competition through one or a group of appeals.

Economic development organizations have shifted to meet a changing, more competitive recruiting environment. More and more public and private development organizations are coordinating their efforts around a lead state agency.

Witnessing the success of states like

North Carolina, whose industrial development has been overseen by the state Department of Commerce, states and their communities are combining strategies. While many states have always had strong agencies, others are realizing the wisdom of what North Carolina's Commerce Department calls "the only way to go." What makes that way go is teamwork, says Robert Brinkley, assistant director of North Carolina's industrial development division.

There is a "tangible working relationship," Brinkley says, among the state government, private businesses in the state, local governments and such groups as chambers of commerce and the state's academic community. The cohesion pays off: North Carolina had more new plants—more than 160—announced in 1983 than any other state, and more than \$2 billion in new capital investment was announced during the first nine months of 1984.

Even centralized development agencies cannot show an entire state to an interested party, but a lead agency can be more successful in expediting a corporation's thirst for information. The services of a development organization or a community are important considerations and can set the area apart from the competition.

To interest a company enough to send representatives, communities have to employ the industrial attrac-

Sometimes the Best Choice Is a Site Unseen

Even with a first-rate consulting company making a recommendation for a site, a company needs to make sure that it settles on the best location. W.W. Grainger, Inc., a Skokie, Ill., manufacturer of electric motors and other industrial equipment, took care to retain responsibility for selecting the site it would live with.

Finding a location for a distribution facility was a major step for Grainger, recalls Richard Hantke, the company's vice president of distribution. Grainger, with manufacturing sites in Illinois, Iowa and Wisconsin, needed to expand its distribution capability beyond its one facility in Niles, Ill., only a couple of blocks from its headquarters in Skokie, a Chicago suburb. Niles is "somewhat landlocked," Hantke says, with no room for expansion.

As a result, Grainger began to look for a site away from the Chicago area. Because "it was our first venture into regionalization of our

distribution system," Hantke says, Grainger hired a consulting firm to assist in the search process.

After the hunt settled on the Kansas City, Mo., area—a centrally located transportation hub where distribution centers for many companies are located—the consulting firm recommended a particular site. But Grainger rejected the location, instead settling on a nearby site with flatter land, allowing for greater potential expansion. The company bought 180 acres and began construction in early 1980 on a 1.4 million-square-foot warehouse with 5½ miles of track. The facility, which was opened early last year, has a staff of 200 workers.

No decision about where the company will expand its warehousing in the future has been made, Hantke says, but with the Kansas City building taking up only 30 acres of the site, there is still plenty of room for expansion there.

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Room for business expansion and residential development is important for communities looking for growing companies and the jobs and revenue they bring.

tions the company demands. State write-ups and community profiles have to emphasize the most enticing features of an area. Competent and detailed communication is a service that must be quickly and readily available.

Despite the odds and economic uncertainty, some communities have successfully recruited new businesses.

Several areas of the country orches-

trated successful development of the high tech industry in the past few decades. To reap the benefits of the new industry's emergence, the developers of Silicon Valley in California, Austin in Texas and the Research Triangle in North Carolina recognized the industry's needs and aimed appeals to these needs. One such appeal was each site's proximity to local universities, a source

of skilled labor and graduate courses for the employees. Availability of venture capital has provided funding and encouraged the risk-taking required to start companies.

STATES AND REGIONS within states have to take the initiative to attract selected businesses using distinctive incentives. As a major appeal, the Pennsylvania Department of Commerce advertises its years of financial expertise through the Pennsylvania Development Authority, the nation's first government sponsored, long-term, low interest industrial financing authority. Communities in Texas benefit from a state policy of implementing few regulations, including no personal or corporate income tax and a tax moratorium on equipment and machinery.

An economic development freeze for the Great Lakes states is beginning to melt as changes in tax structures and the economy warm the region's business climate.

More companies are now looking for expansion sites in the Great Lakes states than a few years ago, says Robert Ady, executive vice president of the Fantus Company, which assists businesses looking for places to expand. One of the principal reasons is a change in pay practices around the country. In the early 1970s, Ady says, his firm conducted a survey that showed a company could save 25 percent in wage costs by locating in a Southern state rather than

Community With a Great Profile

John Barrymore was a big movie star, at least in part because he was "the great profile." In economic development, a favorable community profile may not impress movie producers but it can certainly help attract companies.

Such community profiles are state-supplied documents—usually about four pages in length—jammed with information on population trends, banking facilities, utilities, available sites, industries already there, size of the work force broken down into age and sex, transportation, taxes, sewer and water capacities and such "quality of life" attributes as parks, schools and other cultural activities.

The accuracy and detail of community profiles is very important to the Gates Corporation, a Denver-based manufacturer of auto and industrial parts. Vernon D. Gabe, director of

corporate real estate, says that information from the profiles and careful attention to a systematic approach to site selection has led to 12 successful new locations in the last 10 years—nine factories and three distribution centers. Those community profiles, however, are not first on Gabe's agenda.

After a need to open a new facility has been agreed on, Gabe says, "the first step you really take is determining the most efficient location."

"Then we begin our search," Gabe says, with a study of assets such as low labor costs and low taxes. Gabe collects community profiles from the state economic development agency for every community within a radius of about 200 miles, the area which usually shares a motor freight zone. As they study profiles for 100 to 150 communities, searchers on Gabe's staff keep in mind that labor and

motor freight rates are usually Gates' biggest costs.

Gabe puts together an analysis comparing operating costs in the various communities. That analysis, which includes expenses like labor, site preparation, construction, equipment and government financial incentives, is considered along with quality of life in selecting the site.

For Gates, the site selected must provide adequate space for an operation that may range in size from 100,000 square feet to 250,000 square feet, with a work force of between 80 to 250 employees, depending on the nature of the facility. "We built a plant at Red Bay, Ala., of 125,000 square feet, and it will employ up to 100 people," Gabe says. The plant at Red Bay, a town of about 2,500 people, manufactures industrial hose used in dredging and in the oil industry.

in a Great Lakes state. When Fantus repeated the survey recently, the difference had been cut to 12 percent.

The move to capital-intensive manufacturing from labor-intensive operations gives communities in the Great Lakes states an advantage. "Companies are starting to envision their next generation of manufacturing plant," with a heavy emphasis on automation, Ady says. Such a shift from plants with a large number of workers turns attention from maintaining a low wage level to finding a large pool of technically competent workers.

Industries that are still labor-intensive, Fantus analysts have found, are moving overseas to take advantage of wage levels lower than in any area of the United States. As a result, Ady says, "the sun belt has lost some of its glamor in terms of cost advantages."

INSTEAD, there is a new emphasis on the vocational schools where a work force can receive technical training. "Those communities that have first-class educational systems are going to prosper whether they are in the North or the South," Ady says.

Because of the increased pressure to improve academic training in technical areas at all levels, professors at Midwestern universities are being recruited by schools in the sun belt. "Communities from coast to coast recognize the importance of educational quality to their economic futures—some are doing something about it and others aren't," Ady says.

This greater competition for top academic talent is "just starting now, and it's going to be a bigger and bigger trend," says Ady.

The distinguished reputations of the Midwest's large public universities are a great asset for the region, Ady says, as economic development depends more and more on academic excellence.

New jobs and new revenues do not come easy or cheap. More than \$300 million is spent annually by economic developers nationwide, and up to a dozen sites are among those in serious contention for each new facility.

Rather than a search for the chairman's cigar ash on a map, site selection involves a step-by-step approach by companies working with economic development agencies trying to highlight the distinct advantages of their states and communities. ■

This overview of economic development was prepared by Don Ciandella, editor of Industrial Development, a Conway Data, Inc., publication, and by Mike Lewis, a Nation's Business senior editor.

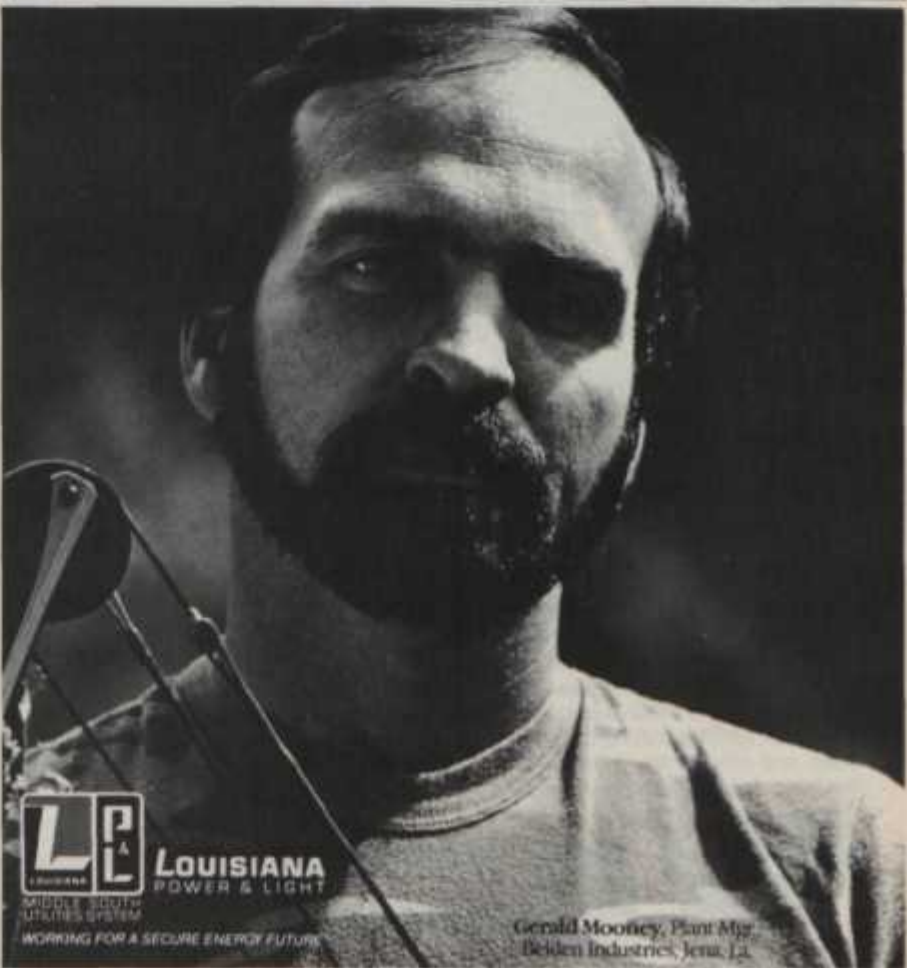
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When Ivory Tower And Shop Floor Meet

An innovative cooperation of government, business and higher education brings growth and more jobs to Pennsylvania.

By Jane Garner

PRIVATE business, state government, and colleges and universities have seldom shared the same goals. But in many states that is changing. Pennsylvania, for one, has created a program that combines the research efforts of companies and universities in projects financed by government grants and private matching funds. The resulting business climate has attracted many new growth companies.

Joint state-business-university partnerships work on a range of activities from product research to training programs, seminars and start-up help.

They are, in effect, small-business incubators, providing low-cost housing, start-up funds, financial and legal counsel and other services for entrepreneurs. As a result, states get more jobs and stronger economies as businesses get started, and universities and colleges get new money for research.

Pennsylvania's Ben Franklin Partnership Program, begun in March, 1983, now has 80 public and private higher education institutions participating. The program promotes advanced technology development in new products and processes, especially those

that can be adapted to existing industries.

Funding for the program has increased dramatically since its beginning. The state provides an appropriation, and businesses and higher education institutions supply matching funds. The state appropriation for the fiscal year 1982-83 was \$1 million and was matched by \$3.1 million. The amount has grown in 1984-85 to a state appropriation of \$18 million with matching funds of \$55.6 million. State officials say the 302 projects approved for 1984-85 make Ben Franklin the largest technological innovation program in the nation.

MIKE BOLTON is general manager of Xebec-East, a participant in the program. He calls it "a sharing of resources." Companies and schools that cannot afford expensive advanced technology equipment are able to share that equipment with larger companies that participate in research efforts. Not only are larger companies willing to share equipment, but they also have donated buildings to house incubator facilities. That sharing, Bolton says, helps fledgling companies, such as Xebec, and gives partner universities access to equipment needed for research.

"It's really a whole attitude that Ben Franklin represents—companies and schools must work together," Bolton says.

Within the first 15 months of operation, 67 new firms settled in Pennsylvania, creating 346 jobs, and 43 firms expanded, creating 318 new jobs. The program also contributed to the retention of 49 jobs in 272 firms and reportedly influenced five companies to consider relocation in the state, creating a potential of more than 1,100 additional jobs.

The program aims to create or retain 10,000 jobs in four years.

Research projects are conducted through four regional advanced technology centers. The centers compete for grants out of the state appropriation on the basis of worth of the research projects and estimates of matching funds each will receive.

The incubator program is an additional help to start-up companies. In addition to low-cost rentals, companies are provided secretarial pools, office supplies such as copy machines, and tools for their work and research such as computer facilities, support laboratories and other technical needs.

One of the start-up companies that has benefited from the services the Ben Franklin Partnership Program provides is Polar Materials, Inc., a Bethlehem, Pa. firm specializing in coatings for ap-



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pliance parts and audio and video tapes.

As a start-up company, Polar Materials received "superb support," says President and Chief Executive Officer H. Ronald Thomas. The company was provided financial and legal counsel and Small Business Administration advisory help. It received Ben Franklin Partnership Program start-up funds as well. It rents, at a low cost, 8,000 square feet of a building donated to the program by a local steel company.

"Polar Materials was formed in January, 1984, started operations in March with three people as founders, and we're now up to 13 people," Thomas says. "We anticipate 20-25 by the end of this year and 50 by next June."

The company has attracted \$900,000 in venture capital since its formation and has just received an \$800,000 grant to fund three joint research programs in basic materials science through the North East Advanced Technology Center, one of the four regional centers.

A Consortium in the Midwest

Although Pennsylvania is making an especially large investment in encouraging matches between companies and academic institutions to give birth to jobs, other states are beginning to move in the same direction.

Among the states promoting the growth of companies developing new products is Wisconsin, whose Technology Development Fund began operations in December, 1983, with \$2 million in state funds. The fund is used to make grants to consortia of businesses and state colleges and universities, explains Roger Nacker, research director in the Department of Development.

The fund has already financed 13 applicants in the fields of medical equipment, automated manufacturing equipment, and genetic and chemical engineering.

Wisconsin has taken another step to make new businesses feel at home: the state has expanded its housing finance authority to encompass economic development. The program, which is just getting off the ground, will provide long-term, fixed-rate loans to small businesses. The money may be used to buy land and to pay for buildings to house headquarters, manufacturing, storage and other functions.

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The Ben Franklin Partnership Program has helped the company in more than material ways. "Ben Franklin gives a new company a tremendous amount of credibility," Thomas says. "Corporations are much more likely to talk to you if you are under the scrutiny of the program."

"There's no question—we are where we are today primarily because of Ben Franklin."

Xebec-East is a branch of California-based Xebec, which makes parts for personal and small business computers. It is in Pennsylvania primarily because of Ben Franklin. Mike Bolton is a vice president of Xebec as well as general manager of Xebec-East, and used to be director of the Ben Franklin center at Lehigh University.

Xebec was interested in the partnership arrangement, and "through the Ben Franklin partnership," says Bolton, "we were able to have access to partnerships that were very attractive to us."

BOLTON PREFERS Pennsylvania's program to those of other states. "Other states use money to build buildings and create labs," he says. "Here the money is actually used to help people work together" and not for bricks and mortar.


Xebec, a 10-year-old company that had sales of \$14 million in 1981 and expects more than \$150 million this year, opened Xebec-East in late May of this year. The branch has 25 employees, one plant under construction and another plant to be built soon, with 400-500 employees expected after construction is completed. The branch has just received a \$330,000 grant to help sponsor research in the areas of computer-assisted design and computer-assisted manufacturing, microelectronics and materials science.

Lehigh, where the North East Advanced Technology Center is located, is strong in Xebec-East's research areas. Bolton says that through the Ben Franklin program, Xebec-East has lines of communication with college technical and training people who work with the center. "We use faculty and students on a regular basis to get some of our key projects under way," Bolton says.

"The impact of the Ben Franklin Program on higher education is quite fundamental," says Peter Likins, president of Lehigh. "We are re-examining some pretty basic questions of our role as higher education institutions and how it relates to the United States' economy."

He says the changing relationships are good, but must be watched. "We are mindful of the need on our part to maintain some sense of balance with

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Pennsylvania's incubator program has helped Polar Materials, Inc., manufacture appliance-part coatings, says President H. Ronald Thomas.

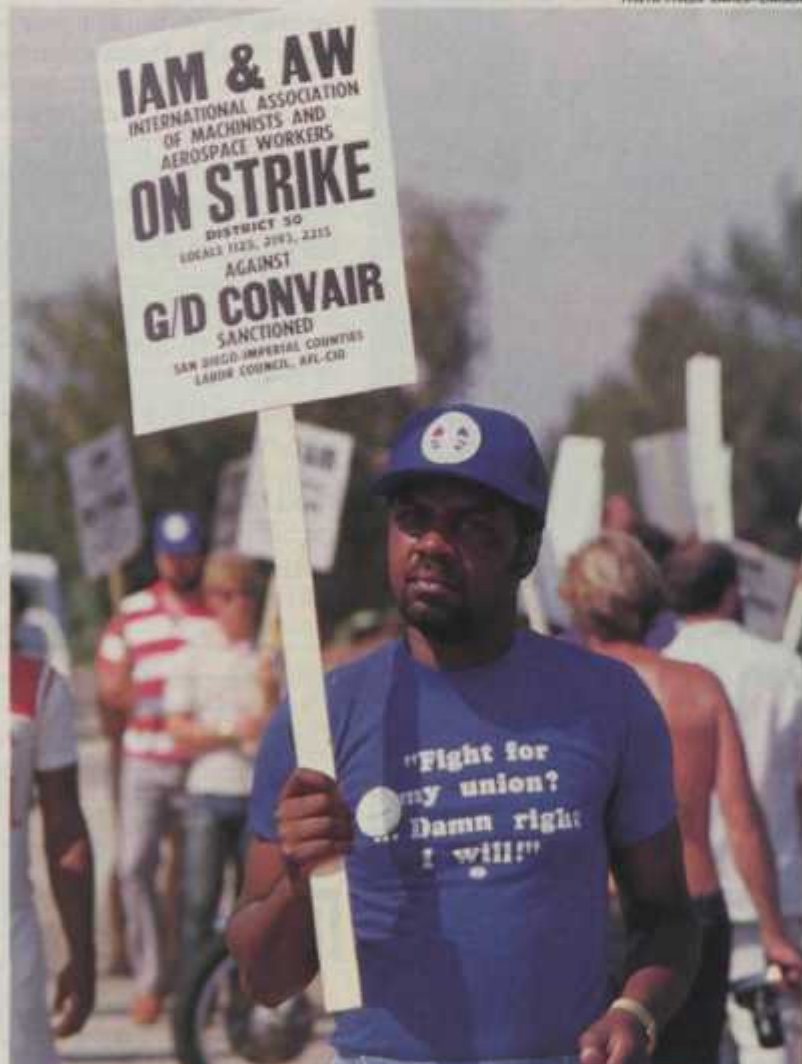
our newfound opportunity in industry," he says. "Our fundamental responsibility is in education as a research institution."

In spite of their different goals and purposes, businesses, state government and higher education institutions in Pennsylvania are each benefiting through the Ben Franklin Partnership. And because of the partnership, entrepreneurs have a better chance of making the vision of their own business a reality. As Polar Materials' Thomas says, "We could not have accomplished what we did without the Ben Franklin program." □

For more information on the Ben Franklin Partnership Program, call Wolf Plosila, deputy secretary for technology and policy development (717) 787-3003, or write Advanced Technology, Office of the Secretary, Pennsylvania Department of Commerce, 433 Forum Building, Harrisburg, Pa. 17120.



PHOTO: PHILLIP DAVIES—LIAISON



A community's labor climate is important. To operate efficiently, companies need skilled workers at reasonable pay scales.

Smaller Unions, More Jobs

New study shows a link between low rates of unionism and high growth.

By Leo Troy

ECONOMIC DEVELOPMENT is highest in the states where unionism is lowest, as indicated by a comparison of changes in employment—an important measure of economic development—and union statistics that my Rutgers University colleague Neil Sheflin and I recently compiled.

Our study shows that the big states with the largest gains in employment also had stable or declining percentages of union membership. The study compares the percentages of unionized non-farm employees in 1939, 1953 and 1982.

Because the percentage of govern-

LEO TROY is a professor in the Department of Economics of Rutgers University's Newark College of Arts and Sciences. This article is based on the 1984 edition of the Union Sourcebook by Leo Troy and Neil Sheflin, published by IRDIS in West Orange, N.J.

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ment employees in unions was much higher in 1982 than in the earlier years, all government employees were excluded from the final year to emphasize the effect of union membership on economic development, which is not related to government employment growth.

The year 1953 is important for two reasons: (1) The shift in the economy from domination by the production of goods to a service-oriented marketplace occurred in the 1950s, and (2) 1953 was

the year that organized labor enjoyed its biggest share of the U.S. labor force.

Our study tells some important things about the economy:

In states where employment grew more rapidly than the national average, unionism lagged or declined. In Florida and Texas, the percentage of union membership in 1982 was not only below 1953, it was below even 1939. In California the 1982 percentage was at about

the same level as 1939, and North Carolina's was only slightly higher; both states had 1982 percentages below the peak rates of 1953.

Georgia was the only growth state with a gain but its current percentage is below the national percentages for both 1953 and 1982.

HIGHLY UNIONIZED, heavy industry states stand in sharp contrast to the rapid-growth states. Illinois, Michigan, Ohio and Pennsylvania lag well behind the sun belt states in employment growth and are below the national average, as well.

Union membership rates dropped in the heavy industry states between 1953 and 1982, but all were above the national average in 1982, as they were in 1939 and 1953.

Massachusetts, New Jersey and New York are included in the study to illustrate other labor market changes associated with economic development. Massachusetts has become an important center of employment in high technology, with the work force shifting from the declining textile and shoe industries.

Moreover, the new high tech industries are largely nonunion.

As a result, Massachusetts' 1982 union membership percentage dropped below its 1939 rate.


New Jersey retains a fairly balanced industrial mix, though it has lost manufacturing employment. Meanwhile, its union membership rate has returned to its 1939 level and is far below its 1953 level.

New York, with the second smallest employment gain of the states studied, was the only state to show a higher rate in 1982 than in 1939, although the 1982 rate was below the 1953 level.

The decline of unionism associated with economic development is not limited to the United States. The British union movement has also been slipping. A British expert in industrial relations, Prof. B.C. Roberts of the London School of Economics, said recently that "we are following the American unions and have been for some time." He added that "all over Europe, in fact, union influence has topped out, for similar reasons."

Does this mean that unions are an anachronism?

Hardly—unions remain strongly entrenched in the goods-producing sector of the labor market and among blue-collar workers. There is little reason to expect unions to lose their hold on these centers of power.

Unions will survive, but will be largely ignored by the trends in economic development. 

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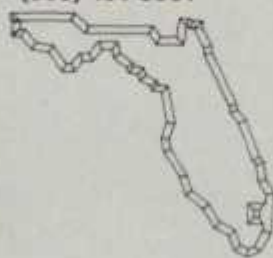
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Why "Talking It Out" Almost Never Works Out

Communicating with your employees should be aimed at preventing problems, not solving them after they arise.

By Losana E. Boyd

THE BEST WAY to communicate with your employees is to chat informally with them, and the only way to solve personnel problems is to talk things out. Right? Wrong.

Managers of small companies in particular think they can rely on informal lines of communication and skip the formal processes that large corporations use. They may even pride themselves on that informality.

"We talk to each other around here," says the president of a New York advertising agency. "If someone has a problem, we talk it out until it is solved."

But talking it out means you are not dealing with problems until after they have occurred. That is an inefficient practice that successful business people avoid when devising marketing strategies, developing product lines or doing just about anything else.

Informal communications can even create problems. Consider:

- If you shy away from written job descriptions, employees are left to develop their own understanding of their functions within the company. An employee may perceive his job to be something other than what you think it is.
- If you rely on word of mouth exclusively, inconsistent versions of the same story tend to crop up, and the rumor mill starts to turn.
- If you do not tell employees what is going on, they cannot properly direct their best efforts. "We tend to go after a piece of business whatever it is," says an account executive at a New York film production company. "There is no interaction until we are already into a project. People are constantly running in 47 different directions." Forces are scattered, and projects often have little or nothing to do with employees' areas of expertise. Consequently, those projects show little profit.

LOSANA E. BOYD heads *Management Communications Services*, a consulting firm in New Providence, N.J.

The first step in avoiding such problems is to develop a written description of your business and give it to all employees. It is obvious to you and your top managers what your business is about. Now make sure all your employees understand as well.

A written description reinforces to everyone the importance of the work your company does. The more they learn about your business, the more accurately they can direct their perfor-

mances and rewards for good suggestions. Such a newsletter sends messages about the importance of individual contributions.

Supervisors are another important channel for communicating with employees—a two-way channel that can feed messages back to you.

The next step is to give employees the information they need about where they fit into the organization.

In a small company it is not always



mance toward meeting company goals. And if you want them to get excited about your business, tell them how you feel about it. Your enthusiasm will be contagious.

An excellent place for a description of the company and your business philosophy is the employee handbook—strangely, almost never found at small companies. I advise the heads of these companies that if they employ more than two people, they should consider a handbook.

You can use a newsletter to announce promotions, performance bo-

clear what a job involves. Many times a job is a combination of duties that previous incumbents performed plus any extra skills the new person brings. After a series of turnovers, a job can evolve into something management never intended.

Naturally, positions overlap in a small company. Flexibility is a common trait among small business employees, and most enjoy doing a variety of tasks. But the situation can get out of hand. Turf protection may become an issue as the company grows. Accountability for key projects may get shuffled around,

and other management headaches can appear.

So describe each job. The descriptions do not have to box people in; they can incorporate flexibility.

Ask each employee to distill onto one page the following information:

- The tasks he or she performs.
- The amount of time spent on each task.
- The skills needed to perform those tasks.

You and your management team should go over the summaries carefully. Any differences between what you consider important and what your employees actually do will emerge. Those differences can then be resolved to meet company goals.

PERHAPS YOU EMPLOY an accountant who is responsible for processing orders as well as keeping the books. Your accountant may spend more time on the books because his or her book-keeping training and skills are strong. But the order processing is critical. By describing and weighting the two areas of responsibility—say, 70 percent of the accountant's time should be devoted to order processing—you can let the accountant know the priorities. Leave that employee in the dark, and your frustra-

tion will mount until he or she quits or is fired.

Rapid turnover is a way of life for some small businesses, and in low-skill positions perhaps the speed of the revolving door is no real problem. But to companies that need skilled help, from clerks on up, rapid turnover is nothing but a drain on profits.

Turnover confronts you with the expense of recruiting and training new people. How many weeks go by before the new hire is anything more than a financial liability? And if turnover results from having to fire people because management did not do its job, the company also incurs the expense of unemployment compensation, the cost of which escalates as the layoff record worsens.

The owner of a wholesale food business recently complained that three key managers had left after less than a year. "I guess they just didn't understand what this business is all about," he said.

What my client did not understand was his role in their departures. When turnover is a sign of lack of communication, the new hire probably will not last any longer than his predecessor.

Employees appreciate some degree of structure. They need to know where

they fit into the organization. Do not assume they automatically understand what you expect of them. And do not leave it to their intuition or imagination. Tell them.

Once your employees understand the nature of your business and their roles in meeting your company's objectives, take the final step: Identify and communicate standards of performance for each job.

Performance standards are specific, concrete and measurable indicators of an employee's work. They are based on two elements: The job description and the company goals. Setting them offers the small company a consistent way of appraising each worker's contribution to the business.

They mean less guesswork in the management of people, fewer general impressions and more concrete observations about each employee's work. Management can measure the employee's performance against his clearly defined responsibilities.

TO SET PERFORMANCE standards, ask each supervisor to sit down with each employee and agree on the activities the employee will perform during the next quarter. These standards should be written and, if necessary, reviewed by top management.

If it is part of someone's job to process orders, then a standard of performance might be to handle 90 percent of all orders within one week and the rest by the following week.

At review time the supervisor and employee can discuss how well this standard was met.

To preserve the flexibility that most businesses prize, the performance standards themselves should be reviewed. When a new computer system is introduced, the supervisor and the employee might agree that 90 percent of orders can be processed in only three days. Since the computer will free more of the employee's time, the employee and the supervisor can determine together what other tasks he or she will assume. The important thing is that everyone knows the changes in the game plan.

Best results come from informal reviews conducted several times a year, not an annual appraisal. The object is to encourage rather than dictate high-quality performance.

Clear communication enhances managers' ability to develop their employees for the benefit of the company. The chief executive officer who succeeds is not the one who says, "Give me the right people and I'll work wonders," but rather the one who asks, "How can I make the most of the people I have?"



To order reprints of this article, see page 97.

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Accountants' Roles Are Multiplying

CPAs now do much more than audits and tax returns—to the particular benefit of small business people.

By Mary-Margaret Wantuck

FIVE YEARS AGO, the Los Angeles Olympic Organizing Committee made a vow to finish the 1984 summer games in the black. That had never been done—or even thought of—before in the history of the Olympics.

The committee hired an outside consultant to (1) help develop a comprehensive five-year financial plan and forecast, (2) conceive the largest single ticketing system ever attempted, (3) create ideas for an integrated telecommunications network (including an innovative electronic mail system) and (4) design the first fully automated electronic Olympic identification and accreditation system.

The consultant was not some new high tech outfit, but rather Arthur Young & Company, a 90-year old public accounting firm.

And the fruits of this marriage of accountants and athletics? A \$150 million surplus, most of which will go to aid amateur athletic programs.

Today's public accountants have moved outside their traditional sphere of accounting, auditing and preparing tax returns and financial statements. They are actively engaged in creating and selling tax shelter plans, as well as in executive search, technology consulting and the sale of computer hardware and software. And they have become extremely receptive to fledgling businesses—particularly in high technology—that need start-up capital. The accounting firms act as matchmakers between the businesses and possible funding sources.

"The accounting profession has recognized that trading large business clients back and forth is not where growth is going to occur," says Grant Rollin, marketing partner in the national accounting firm of Deloitte Haskins & Sells. "The large corporations with their own accounting staffs will still use us for auditing and tax compliance purposes. But it's finding young companies that have new and profitable ideas that will prove most advantageous to



Accountant Merle Elliott views such activities as executive search and technology consulting as natural extensions of accountants' traditional roles.

us, because as they expand and need more of our services, so will we."

Public accountants have grown more visible in the past 10 years, since advertising prohibitions for the profession were lifted.

Marketing, once disdained by accountants, has gained new respect within the profession. Many large firms actually recruit marketing experts.

"We are taking the initiative and going out to meet people whose businesses are still in the conceptual phase," say Rollin. "We become part of their team, introducing them to bankers, attorneys and venture capitalists, helping them write up business plans and formulating a financial structure that is attractive to investors. In essence, we serve as the vice president for finance for these companies until they can afford an in-house financial team."

Smaller businesses are benefiting most from this explosion of new activities, accountants say. Small business people are turning to public accountants for services such as major corporations turn to their financial staffs.

"Accountants bring an array of expertise and background in such areas as computer applications, data processing, communications technology and management information systems that an entrepreneur doesn't know about," says William Kanaga, chairman of Arthur Young & Company. "The businessman of today wants someone with credibility who can tell him that this piece of computer hardware is good for his needs or these packages of computer software will solve his problems. He wants somebody he can believe in—someone who has grown with his business. The accountant comes with an independent view: He's not a salesman or someone with an ax to grind."

ACCOUNTANTS maintain that their expanded services have grown naturally out of traditional accounting. John A. Thompson, chairman and chief executive officer of Main Hurdman/KMG, a large international accounting company, says the new services are "demanded by our clients."

Main Hurdman offers computer soft-

ware designed to help in financial management in the health care industry. In addition, it has developed software that helps government units control budgets. Other services include management consulting; merger, acquisition and divestiture assistance; bankruptcy and reorganization counsel; and financial planning for executives.

But some accountants believe that offering a financial supermarket of services could be hazardous. It is potentially damaging to the "objectivity, integrity, independence and professionalism of accounting," says Bernard Z. Lee, current chairman of the American Institute of Certified Public Ac-

countants in the context of a learned profession—not as purveyors of needed products and services, making us more merchants than professionals."

Even though Lee believes the accounting profession's integrity goes beyond what the public demands, he worries that clients will begin to doubt. He asks: "Will I be regarded by my client as objective at the end of the day if he is buying a product from me, which I, in turn, am buying from someone else or, indeed, producing?"

Rollin says a very strict ethical code, "probably the cornerstone for the integrity of the entire accounting profession, prevents accounting firms from

losing sight of the fact that our reporting responsibility is to the independent third party—the stockholders and the public. We would never compromise that situation by taking stock in lieu of fees, for example. There's a distinction between doing what you can to ensure your clients are a success and compromising your integrity."

Kanaga adds that an accountant's link with his client should be an intimate one, "getting to know the business inside and out and the way that management thinks, so that he can provide, in addition to accurate financial statements, help and advice when crises arise. Likewise, it is in the client's best interests to give us as detailed and realistic a portrayal of operations as possible."

Trying to be too objective by rotating partners and staying at arm's length from business clients can be dangerous, Kanaga notes. "When the profession was under a lot of scrutiny by the Securities and Exchange Commission during the 1970s

because of the rash of audit failures and bankruptcies, John C. Burton, then the agency's chief accountant, testified that the failures and bankruptcies he saw stemmed from accountants' lacking knowledge about a company rather than knowing too much."

Change in the profession has resulted in the appearance of a different profile for most accountants. Strong technical knowledge of tax law and accounting is still required, but beyond that, today's accountants must be able

to write and express themselves well and deal positively with people and problems. They must be able to make a case and have clients accept that point of view. They must be sensitive to their clients' needs, problems and opinions.

CHANGE HAS ALSO been occurring in the way accounting is regulated. Although there was regulation on the state and federal levels, the American Institute of Certified Public Accountants instituted self-regulation six years ago. An accounting firm's quality control is examined by a team of its peers every three years. A firm can retain another firm to do the review, subject to the institute's approval, or the institute can provide a peer review team.

Robert K. Mautz, a member of the Public Oversight Board, an independent body that oversees peer reviews, says the system's advantages over government regulation include higher standards for quality of service than state and federal laws require. He also cites peer reviews' ability to reach all members of the profession, rather than just those whose poor performance draws the attention of government regulators.

Says Rholan E. Larson, managing partner of Larson, Allen, Weisbar & Company in Minneapolis, in his essay "Self-Regulation: A Professional Step Forward": "Government regulation assumes that punishment for those who violate the rules is a useful deterrent to improper performance by others, and it is. But while this approach causes the regulated to avoid infractions, it does little to bring overall improvement in the quality of practice. On the other hand, self-regulation, which has no legislative authority, emphasizes a positive approach. It rests on the notion that the public as well as the members of the profession are effectively served by preventive actions that reduce the likelihood of future problems."

Accountants who run afoul of the law can end up in jail, but critics of the peer review system say its sanctions are few and undramatic.

Mautz contends, however, that sanctions other than imprisonment—firing, for example—can be just as harsh: "Consider the plight of a partner who has been terminated for reasons of unsatisfactory performance. He has been found inadequate by his most intimate peers. Accepted by them into professional partnership—with all that implies—he has been judged unworthy of that trust. His opportunity for finding employment at anything like his previous compensation is slight indeed."

Larson, who acknowledges that there will always be problems that "only gov-



Bernard Lee, head of accountants' main trade group, is wary of an accounting supermarket of services.

countants, the profession's main trade organization, and a senior partner in the national accounting firm of Seidman & Seidman.

As accountants pursue commercial opportunities, they must not lose their professional standing, Lee says. "We need to explore whether expanding the scope of our services to nontraditional areas should be without limitation. The very soul of the profession depends on continuing to be perceived as professionals by the public. And I mean pro-

Next Month in Nation's Business

Tax Reform Plans

The administration has pledged to restructure the tax system, making it fairer and simpler. Treasury Secretary Donald Regan outlines proposals that are being considered for ways to redeem that pledge.

Pay Raises Get a Lift

First came a healthier economy, then came more robust profits, and then came bigger numbers on executive paychecks. An authoritative survey of what is happening to managerial salaries and incentive pay.

Savings Down the Road?

Taxpayers will have to come up with hundreds of billions of dollars for road and bridge repairs in the next decade. But there is hope that research breakthroughs will mean less expensive, more durable highways.

Drunk Drivers' New Victims

Companies that give employee parties are increasingly finding themselves facing liability for damages caused by partygoers who drive off with too much booze under the belt. How can a firm protect itself?

ernment regulation can handle," sees the "combination of the two forms of regulation as best serving the public interest."

Main Hurdman's Thompson agrees: "You have to understand that professional self-regulation is only one part of the total regulatory atmosphere."

Change of a more understated kind is occurring within the Financial Accounting Standards Board—the accounting profession's independent nongovernmental standards-setting body—particularly in its efforts to become more sensitive to the problems of small businesses that are trying to cope with FASB rules.

In 1981, an American Institute of Certified Public Accountants committee reported that small firms must be given "a means of avoiding unnecessarily burdensome and costly accounting standards." It urged that the FASB consider adopting more rules that "distinguish among large and small... on the basis of... cost-benefit considerations."

LEE NOTES that the FASB is holding a series of meetings with the AICPA's committee on this issue. But, he adds, "there still is a long way to go." He urges accountants representing small businesses, and small business groups themselves, to provide input and "get their oars in the water if they want to see something accomplished."

Merle Elliott, managing partner of Smith, Elliott, Kearns & Company, a small Hagerstown, Md., accounting firm, says small accounting firms will become specialized "boutiques" as the larger ones broaden the range of services they offer and emphasize specialty departments focusing on an industry, service or product.

But he maintains that "there will continue to be a need for the individual practitioner—one who can provide the personal hands-on consulting touch to small businesses."

Kanaga predicts that accounting firms will dive more deeply into international waters, helping small U.S. companies to establish bases abroad and foreign firms to do the same in the United States.

The future is rosy for the accounting profession, Lee says.

"We live in a business climate that is complex and becoming more so," he says. "I just don't see how in the world that could be managed without our profession. Our services are needed by the public in good times as well as bad. Indeed, during the latter, we become more valuable."

Kanaga sums it up: "The accounting profession has now adopted a positive approach, telling businesses how it can help them rather than how they went wrong."

STATEMENT of ownership, management, and circulation (Act of August 12, 1979; Section 3685, Title 39, United States Code).

1. Title of publication: NATION'S BUSINESS
2. Date of filing: Sept. 28, 1984
3. Frequency of issue: Monthly
4. Location of known office of publication: 1615 H Street N.W., Washington, DC 20002
5. Location of the headquarters or general business offices of the publishers: 1615 H Street N.W., Washington, DC 20002

6. Names and addresses of publisher, editor, and managing editor: Publisher: Dr. Richard L. Leshner, president, Chamber of Commerce of the U.S.A., Editor: Robert Gray, Washington, D.C.; Managing Editor: Henry Altman, Washington, D.C.

7. The owner is: Chamber of Commerce of the United States, said body being an incorporated organization under the laws of the District of Columbia, its activities being governed by a Board of Directors; the officers are as follows: Chairman of the Board of Directors: Van P. Smith, Chairman and President, Ontario Corporation, 125 East Adams Street, Muncie, Indiana 47304, President: Dr. Richard L. Leshner, Chamber of Commerce of the United States, 1615 H Street, N.W., Washington, D.C. 20002, Vice Chairman of the Board of Directors: Frank L. Morvau, President, Automotive Management Services, Inc., P.O. Box 15607, Tampa, Florida 33614, Chairman of the Executive Committee: Edwin D. Dodd, Chairman, Owens-Illinois, Inc., One Sea Gate, Toledo, Ohio 43668, Treasurer: O.H. Delcamp, Jr., Chairman of the Board, Delcamp, Inc., P.O. Box 1668, Mobile, Alabama 36682, Senior Counsel: Jay VanAntel, Chairman, Amway Corporation, 3574 East Fulton Road, Ada, Michigan 49305, C. William Verity, Jr., Chairman, Executive Committee Board of Directors: Armo Inc., Middletown, Ohio 45043, Donald Kendall, Chairman and Chief Executive Officer, PepsiCo, Inc., Anderson Hill Road, Purchase, New York 10577, Robert T. Thompson, Senior Partner, Thompson, Mann and Hutson, Daniel Building, Greenville, South Carolina 29602, Edwin D. Dodd, Chairman, Owens-Illinois, Inc., One Sea Gate, Toledo, Ohio 43668, Regional Vice Chairman: Joseph F. Alibrandi, President and Chief Executive Officer, Whittaker Corporation, 10880 Wilshire Boulevard, Los Angeles, California 90024, Frank W. Conditine, President and Chief Executive Officer, National Can Corporation, 8101 West Higgins Road, Chicago, Illinois 60631, William H. Genge, Chairman and President, Ketchum Communications, Inc., Four Gateway Center, Pittsburgh, Pennsylvania 15222, Breene M. Kerr, Chairman and President, Kerr Consolidated, Inc., P.O. Box 14787, Oklahoma City, Oklahoma 73113, Lewis W. Lehr, Chairman and Chief

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8. Known bondholders, mortgagees, and other security holders owning or holding one percent or more of total amount of bonds, mortgages, or other securities: None.

9. For optional completion by publishers: Not applicable.

10. For completion by nonprofit organizations authorized to mail at special rates: Not applicable.

11. Extent and nature of circulation

	Average no. copies each issue during preceding 12 months	Actual number of copies of single issue published nearest to filing date
A. Total no. copies (net press run)	917,489	946,188
B. Paid and/or requested circulation		
1. Sales through dealers and carriers, street vendors and counter sales	911	1,021
2. Mail subscription (paid and/or requested)	864,735	890,455
C. Total paid and/or requested circulation (Sum of B1 and B2)	865,646	891,476
D. Free distribution by mail, carrier or other means	40,461	41,889
E. Total distribution (Sum of C and D)	906,107	933,365
F. Copies not distributed		
1. Office use, left over, unaccounted, spoiled after printing	9,143	10,644
2. Return from News Agents	2,229	2,179
G. Total (Sum of E, F1 and F2—should equal net press run shown in A)	917,489	946,188

I certify that the statements made by me above are correct and complete.

DAVID ROE, vice-president publishing



Wholesome Profits From Video Stores

Two former soup salesmen have found that sex does not always sell—and they could not be happier.

Their Adventureland, Inc., videotape rental outlets operate on the philosophy that "life is enjoyed most at home and that parents want wholesome entertainment," says Martin D. Ehman, board chairman. "So our stores handle no pornographic tapes, no X-rated movies.

"That doesn't mean we feel we're better than anyone else, just that we believe families are concerned about what their children are exposed to. This approach has set us apart from other videotape stores."

And set them apart it has. The company grew from a \$20,000 investment only three years ago to an anticipated gross of \$40 million this year—up from \$8 million last year.

"And our first store was no more

than a hobby, something for our wives to do," says Ehman, 50.

Deanna Ehman and Connie Smith, wife of his partner, company president Brent G. Smith, 35, now have plenty to do. Adventureland, Inc., based in Salt Lake City, is opening franchises around the United States at the rate of 25 to 40 a month.

Ehman says that Adventureland is No. 1 in the videotape rental market when measured by outlets. It anticipates having 450 stores by year's end.

Its first store—the hobby—was in Pleasant Grove, Utah. "I was a district sales supervisor with Campbell Soup Company, in Salt Lake City," says Ehman. "Brent had been in Campbell sales, too—that's where we met—but in 1981 he was selling for a national cassette tape company." The video store idea blossomed from a combination of

their interest in movies, sales and tapes, and a desire by their wives to get out of the house.

"We figured the wives could run the store," says Ehman, "and the men would drop in on Saturdays and so on to see how it was going."

It went so well that Ehman and Smith, each of whom had put in \$10,000, had their investments back in three months. So they started another store. And another. After opening four stores, says Ehman, "Brent and I decided we'd better sit down and talk."

The conversation led to franchises—inexpensive, family-oriented and sold to people without retail experience who had always wanted to be their own bosses. "We put the franchise fee at \$5,000 and didn't take any royalties," says Ehman. "And we developed a training program based on our experience in marketing and merchandising."

Eighteen months later, in the summer of 1983, Adventureland had 100 stores in 17 states. Ehman and Smith, who had continued working their regular sales jobs, had bags under their eyes from 80-hour weeks.

"We finally quit our jobs last year," says Ehman, "but we're still working long hours, trying to keep up with our company's growth."

As the company's overhead increased (it employs 11 people full time at its Salt Lake City headquarters), so did its franchise fee. It went up to \$12,500 last year and to \$15,500 in September. And the company now charges a 4½ percent royalty on gross sales in each store.

"We don't consider royalties to be profit," says Smith. "We use those funds for advertising, marketing and the like." Sales in a typical new store are projected to be \$150,000 annually.

Adventureland is now providing tapes to grocery chains and is heading into military exchanges on bases in this country and in Europe, the owners say. But they are still banking on the family as their greatest growth market.

"Some 85 million American families have television sets," says Ehman. "Only about 12 percent have VCRs, but the number is growing rapidly. And the day is coming when VCRs will be built right into television sets. So the videotape market is still ahead of us, not only for movies but for training tapes and educational tapes."

However, he says, recalling that Adventureland was just a hobby three years ago, "The money is not uppermost with us. We're more concerned with quality entertainment in the home than the profits."

Ehman and Smith are enjoying both.

—Del Marth

Brent G. Smith (left) and Martin D. Ehman have a reason for the big smiles. The videotape rental store they started as a hobby in Utah three years ago has blossomed into a franchising company with \$40 million in annual revenues and 450 outlets.



They're "Decadent"—But Delicious

Henry Fonda's wife Shirlee once ordered 30 boxes of them flown from Philadelphia to Los Angeles for a surprise party celebrating the actor's 75th birthday.

Carl Baber, director of food services planning for United Air Lines, got his first taste of them in a Häagen-Dazs ice cream store when he was on vacation in Phoenix. He was so impressed that United has ordered 3 million of them to serve to its passengers.

And 25,000 of them were tucked into athletes' lunch boxes during the Summer Olympic Games in Los Angeles this year.

"They" are Rachel's Brownies, so chocolatey and rich they make your cheeks tingle when you eat them.

There really is a Rachel—Rachel Borish, 32, who describes the chocolate-chip-filled brownies as "voluptuous" and "decadent." Since they taste like a cross between fudge and a mousse,

her mother's Noritake china, she found a produce shop and an ice cream store that would sell them. For Borish, the brownies were just a pastime. But in 1976, *Philadelphia* magazine declared Rachel's Brownies the best in the city, and demand for them escalated.

Their success posed a conflict for Borish, who still saw herself as an artistic person with "a private loathing for business." But to the public, she says, "I had gained an instant identity as a businesswoman—someone trading in cold cash with a product for hire." She decided to compromise by taking the brownies "to a couple more stores, ever so slowly, without fanfare, to keep my dreams on hold for a while, and to see what would happen."

Then, as now, however, the demand always exceeded the supply. And a year after she married Jeffrey Slater in 1977, they decided he would leave his photography business and become Borish's 50-50 partner. (Slater's personality is as firmly imprinted on the business as hers, says Borish. In fact, he came up with the recipe for their second product, Rachel's Husband's Butter-scotch Brownies.)

They quickly outgrew a small bakery they had subrented on weekends and five years ago opened a plant and offices in 4,000 square feet of a shopping center in Malvern, Pa., a Philadelphia suburb. Now they have outgrown that, too, and need to add to their 40 employees. Though they are producing 5 million brownies annually (sales are between \$1 million and \$3 million), they have customers on a waiting list and Slater, 30, estimates it will be six months before they can take on any new ones.

Borish and Slater say they have learned simply by being in business. Borish saw the brownies, which contain no

preservatives, as a "gourmet impulse item" to be sold in upscale shops. But she became convinced—because of the demand—that they could also be sold in supermarkets (in 1-pound tins at \$3.79) and convenience stores (at 75 cents each).

Rachel's Brownies, Inc., sells through 65 distributors in 35 states and counts Giant Food, Inc., Amtrak and People Express among its customers.

Slater and Borish agree that meeting the demands of growth is their biggest challenge, but they are determined to

approach growth slowly, with deliberation and control, maintaining the product quality that Borish guards so zealously.

And what of Borish's old yearning for the concert stage? "I like to think that if I can't play the piano for a living, at least I can pour all the love of music in my heart into a different medium, chocolate, and create the world's most beautiful brownies—one little masterpiece at a time."

—Sharon Nelson

How To Engineer Tough Decisions

Being a good engineer helped him make sales, J. Roland Yow learned, but it did not help him when brisk sales resulted in a cash shortfall.

Yow readily admits that he knew very little about business "and even less about managing a company" when he started an engineering consulting and testing firm in 1972.

Nothing in his background prepared him to run a business. Yow grew up on a farm at Whynot, N.C., and says, "Being in charge of 100 acres of wheat and oats was a great incentive for me to go to college." He earned a Ph.D. in mechanical engineering in 1969 at North Carolina State University in Raleigh.

Yow, 42, has nurtured his Corporate Consulting & Development Company, Ltd. (CCL for short), into a winner that will gross about \$5 million this year. Last year, CCL moved into its own \$1 million building, on 10 rolling acres adjacent to Research Triangle Park, N.C. It now has more than 50 employees, half of whom are engineers. But there have been bumps along the way.

CCL took a while to settle into its specialty, reliability testing of a wide variety of products. It is one of the few companies that qualifies materials and systems for nuclear power plants. It has also moved into software that coordinates computer-aided engineering.

"There have been two periods of decision that taxed my abilities and my resolve," Yow says. The first came when CCL was about three years old and in trouble. While it had good cash flow, it was not earning a profit. It was involved in both seismic and industrial engineering, and, says Yow, "I was managing both segments, even though I had no experience in the latter."

"After careful analysis and a lot of consultation with more knowledgeable people," he says, "I decided to get out of industrial engineering and concentrate on what I believed was a growing



Demand for Rachel's Brownies exceeds supply, and Rachel Borish and husband, Jeffrey Slater, think their toughest challenge is controlling their firm's growth.

with just a touch of cake, she may be right.

A decade ago, Borish aspired to be a concert pianist—she had even studied in Paris. But recurring tendinitis in her forearms squelched her plans. In 1975, after graduating from Cornell University with a degree in French, she found herself living with her parents in Philadelphia, depressed and looking for a job. Her sister-in-law suggested that to earn some extra money, Borish might try selling the brownies she was known for among family and friends.

Borish did. Carrying the brownies on



Mechanical engineer J. Roland Yow turned his small consulting firm into a \$5 million-a-year business.

field—qualification engineering for the nuclear power industry." It was the right choice. The staff was cut from 12 to 6, and CCL's financial picture improved immediately. The company began to grow rapidly.

CCL passed through its second trying period more recently. "By nature and training, engineers tend to let the use of their time be determined by need, rather than by contract," Yow explains. "Over the years, I found that when a client suggested a change during a project, the project manager often would institute it without any agreement to cover the additional cost." As a result, CCL was experiencing cash shortfalls though its sales were good.

Yow took contract writing and supervision from the engineers and gave the responsibility for them to several corporate managers. Before the changes, Yow recalls, CCL once overserved a job by about \$100,000. He vows the company will not do that again: "It makes for some happy clients, but it plays havoc with your earnings."

—Wayne Pennington

He Really Can Make You a Star

Howard Letzring is paid to attend conventions. Last year he showed up at 50 of them. "I put out so much energy that it takes me three or four days to recover from each one," he says.

But the money is a great restorative. He earns an average of \$10,000 per convention plus expenses.

Letzring checks in as the producer of "Wild World of Sports," the main product of his Belleair Shores, Fla., company, Tennis Dimensions, Inc. He videotapes the antics of delegates at play—on the golf course, on the tennis courts, fishing, at special theme parties. He ed-

its the tapes into a 20-minute film with musical background that has the audience at the final banquet laughing at and applauding their own antics.

In the 1960s, Letzring, a highly ranked junior tennis player (18th nationally), went through a South Carolina college on a tennis scholarship. But he realized he was no John McEnroe, and after graduation in 1968, he began teaching tennis, first in Chicago, then in Cleveland and finally, in 1972, at the famous Innisbrook resort

in Tarpon Springs, Fla.

"I enjoyed teaching group tennis and after a while I began filming some of my clinics," he recalls. "One day a student, a corporate executive, asked me to show the humorous portions at a cocktail party. It was unbelievable—everybody cracked up."

Their reaction was not lost on Letzring. Innisbrook is a popular convention site, and he began asking convention organizers if he could film delegates at leisure. He would add commentary, script in some laughs, dub in appropriate background music and screen the results at a delegate get-together.

"It worked because we made ordinary people the stars of the show," he says.

It also worked because the personable Letzring, 40, and his wife, Jacque, 38, have a way with people. "You need a feel for people," he says. "You have to know instinctively which executives are lampoonable and which ones may be too sensitive to fool around with."

The pair, along with a professional photographer hired for each convention, set up some gag shots with a cooperative executive. Letzring, in network newscaster style, is interviewing an executive about to hit a golf shot from a few feet in front of the tee markers. Letzring points out that golfers are supposed to tee off from behind the markers. "I'm not teeing off," replies the executive. "This is my second shot."

Letzring has a clipboard of such one-liners. To work them in, he will con-

fer with a company's people to learn who the bigwigs are, their nicknames, jokes they are known for and other inside information.

"We never make anyone look ridiculous," he says. "We try to have fun, to get people to laugh at themselves. And anything off-color is avoided."

By 1980, Letzring, still teaching tennis at Innisbrook, was spending more and more time behind the camera. And not the \$300 black-and-white equipment he started with, but color cameras augmented by \$100,000 in video gear. He quit the tennis courts to spend all his time on Tennis Dimensions, Inc. (wholly owned by the Letzrings).

In the past four years the video firm has taped hundreds of conventions nationwide, for fees ranging from \$3,500 to \$15,000, depending on convention size. Clients have included Johnson & Johnson, LTV Corporation, E.F. Hutton & Company and Ryan Homes.

Letzring has been approached by video buffs around the country who want him to grant them a franchise, but he has turned them down. "I just don't want the problems that would go with franchises," he says.

Letzring and his wife enjoy the respite between conventions at their two-story home on the Gulf of Mexico. "Ideally, we would like to limit our filming to 30 conventions a year," he says. "That's enough to provide a good life."

—Del Marth



Former tennis pro Howard Letzring (center) found his takeoff on TV's "Wide World of Sports" could earn him top dollar at business meetings.



LogEtronics, Inc., a small Virginia manufacturer, has carved out respectable world sales over the past three decades in the graphic arts industry.

Small Firms Could Miss the Boat On Export Profits

American companies aren't matching the sales efforts of their foreign counterparts.

TO MOST small business people in Virginia, foreign trade means selling to Maryland and West Virginia markets, jokes James Sanders, head of the Small Business Administration. There is more than a little truth in that.

Small and medium-sized American businesses are underexporting compared with their counterparts in other industrialized nations. As a group they sell abroad about 6 to 7 percent of what they produce. In West Germany and Japan, by contrast, smaller firms export about 15 to 20 percent. Americans, government economists say, have grown comfortable selling to their own rich domestic market.

Over the past several years, when even huge American corporations have taken a beating in the world export market, it has been particularly hard for smaller firms to compete. The overvalued dollar has put American goods

and services at a competitive disadvantage, at a time when other nations have lagged behind the United States in economic recovery.

Gordon Johnson, whose Springfield, Va.-based LogEtronics, Inc., has been selling photographic equipment to the graphic arts industry internationally since 1955, says small businesses must become more export-oriented or lose some of their domestic markets. Aggressive small foreign firms will soon sell in enough volume to practice an economy of scale that could lead to underpricing, even when the dollar's value drops.

Tough as it is in the global market, American firms should begin learning how to sell abroad so they will be ready to compete when the international sales climate improves, Johnson says.

"The time to start exporting is now, because it is a long-term process," says

Johnson. "I don't see how the dollar can stay strong. If you wait to export, you'll be left at the post."

Small and medium-sized firms "assess risks differently from the big boys," says Kenn George, director of the U.S. and Foreign Commercial Service, a Commerce Department agency. "They have no staying power and can't afford long-term costs to get into trade—in their opinion."

George formerly ran a small office furniture manufacturing company that boosted sales by pushing into the international market. In government, he has brought in experienced international traders to guide those aspiring to be global exporters in the tricky currents of world sales.

George's agency now boasts 1,700 of these experts, who work with companies to expand American sales abroad. Last year, George says, USFCS consultants were indirectly responsible for boosting small business exports \$1 billion.

Under a Reagan administration mandate, other federal agencies have been galvanized into a more aggressive foreign sales promotion team. The Small Business Administration and the Export-Import Bank have been prodded by the administration and Congress to help small firms get into the world market.

George and SBA's Sanders agree with outside critics that federal trade-stimulation programs are too diverse and uncoordinated. "We have a perplexing array of programs," says Sanders.

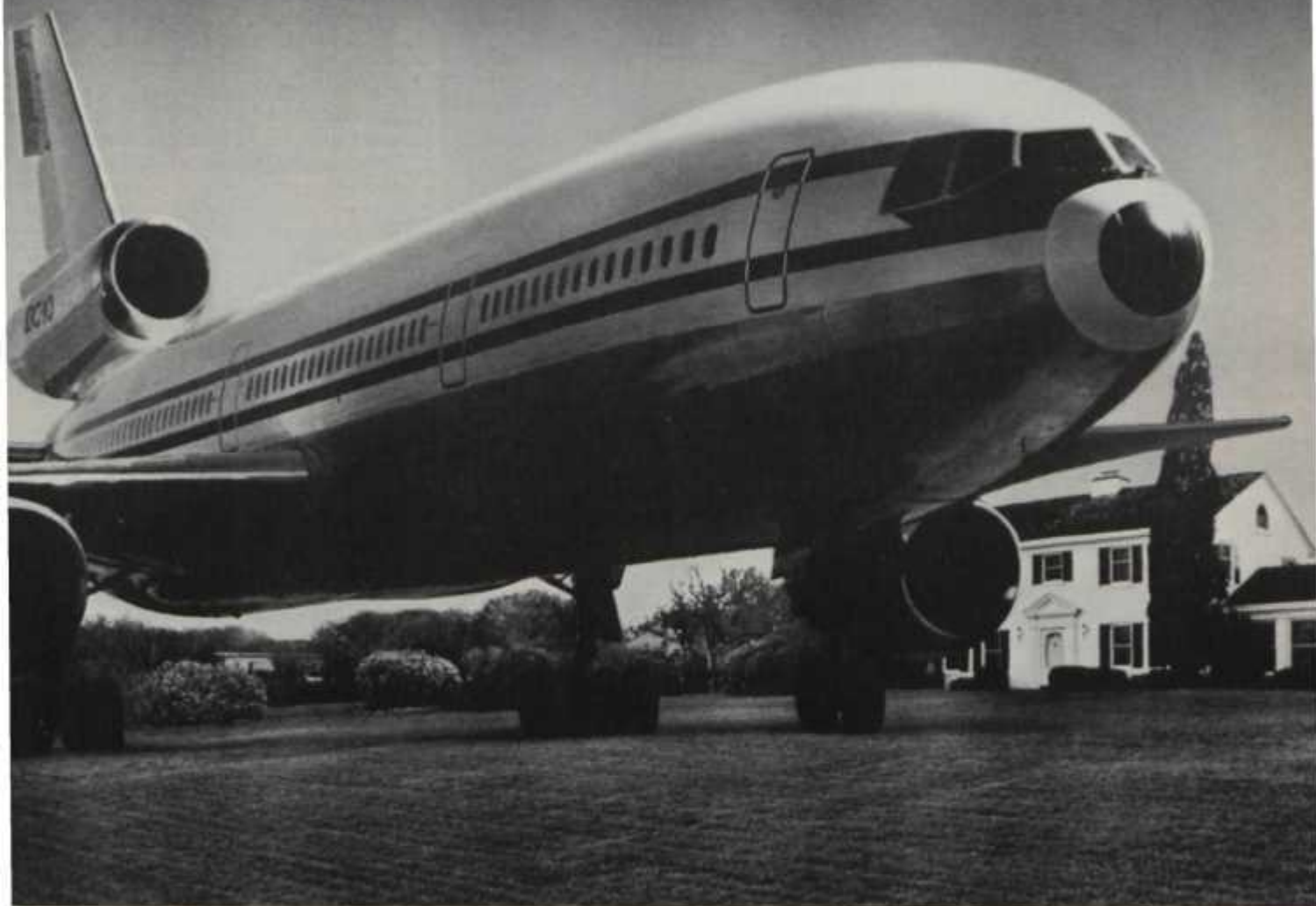
For instance, SBA has large amounts of capital for export-assistance loans but only 17 people to facilitate deals abroad. On the other hand, the large USFCS trade consulting force has no funds to lend. The two agencies are beginning to cooperate with each other and with the Export-Import Bank, which also makes trade loans. But officials say export assistance should be better streamlined for small business.

Ideally, Sanders and others say, there should be an independent trade agency to bring most import and export functions under one roof.

Small businesses are themselves to blame for low exports, says Carlo Gentilomo, president of Contact Systems Corporation, of New York, a trade planning firm. He says American companies are too wedded to their domestic markets.

Government, Gentilomo says, can best serve exporters and importers by providing more market research, but, ultimately, it will be business' responsibility to enlarge trade. "I feel we expect

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American Express and McDonald's are two of the most prominent firms leading vigorous American exports in "invisibles" like travel and retail service.

too much from government, and government doesn't assist us well, either," he says.

The "domestic sales mentality," says Sanders, "permeates Main Street in Middle America. The small business person just does not relate to the global market." That need not be, he says. Farmers, most of them small business people, have been exporting for over a century. They have been aided, however, by middleman firms that deal directly with foreign buyers.

Export trading companies, whose growth has been encouraged under the

Reagan administration, may be the answer, says Sanders. Producers of similar goods sell to an ETC, which in turn arranges for financing, transportation and marketing abroad. It spreads the risk and adds more certainty to the small business' plans.

This administration, says George, is making a historic effort "to bring willing sellers and buyers together."

America's "Invisible" Trade Surplus

The fastest growing area of world trade is invisible. You can't load it on a ship or stack it on a display shelf. In fact, the British officially refer to it as "invisibles" trade. We call it services.

Last year, the United States exported \$132.2 billion and imported \$103.1 billion worth of services. America is the largest exporter of services in the world. Until 1982, service trade surpluses made up for chronic merchandise trade deficits. But America's No. 1 position is steadily eroding, thanks in part to other nations' protectionist measures.

Services include banking, advertising, accounting, insurance, travel, data processing, investments income, telecommunications, shipping, franchising, entertainment, construction, retailing and dozens of other economic functions that are valuable in themselves or as the grease that smooths the flow of merchandise.

Exports of merchandise and services are complementary, says Brant Free, the Commerce Department's services expert. Invisibles, he says, "are the bridge over which brain power becomes industrial power. Services have grown as the result of needs of the manufacturing base."

In its "Hamburgers to High Tech" report, Commerce said, "Services drive demand for higher and higher tech, then buy, apply and sell it." In 1982, the report says, services exports alone accounted for \$48 billion in merchandise sales.

No government agency here or abroad knows the exact size of world trade in services. Such activity is unregulated by the General Agreement on Tariffs and Trade, under whose rules most nations trade. A recent study from the Office of the U.S. Trade Representative says American service exports may be double what is officially reported.

Americans are trying to understand the phenomenon better because services account for almost 70 percent of the United States' gross national product and have the potential for much bigger sales overseas.

In fact, based on the rudimentary available statistics, the United States has the smallest ratio of trade in services to GNP of any industrialized nation—1.4 percent, compared with more than 10 percent for countries like the Netherlands, Belgium and Norway.

"For France to do almost as much services business as the United States says to me that the French are doing a better job than we are," says U.S. Trade Representative William Brock. Brock is leading an American effort to bring services under GATT on terms that would encourage free trade. Recently, his office documented 800 examples of protectionist barriers against services exports worldwide.

As more countries, even developing nations, move into service-providing industries, they are shielding their markets from stronger competitors like the United States and the Western European nations.

Some services imports are banned outright. Others are subjected to discriminatory taxes and licensing procedures. Still more countries are subsidizing the development of their service industries.

Harry Freeman, an American Express senior vice president, says protectionism has the same distorting effect on world trade in the advertising sector as it does on trade hard goods.

It is imperative to reverse this protectionist trend, Freeman says, lest it weaken accomplishments in liberalizing merchandise trade.

"Without banking or construction or insurance or transportation, there is not a single factory that would be able to operate," he says. "Nor would there be any foreign trade. The trading of goods among nations depends upon the services that support those goods."

—Henry Eason

For Export Information

For export assistance, write the following agencies:

- U.S. and Foreign Commercial Service, Room 3804, 14th and Pennsylvania Avenue, N.W., Washington, D.C. 20230.
- Small Business Administration, Office of International Trade, Suite 412, 1129 20th Street, N.W., Washington, D.C. 20416.
- Export-Import Bank, 811 Vermont Ave., N.W., Washington, D.C. 20571.
- Agency for International Development, Washington, D.C. 20523.
- U.S. Department of Agriculture, Foreign Agricultural Service, Washington, D.C. 20250.
- Overseas Private Investment Corporation, 1129 20th Street, N.W., Washington, D.C. 20527.
- Office of the United States Trade Representative, 600 17th Street, N.W., Washington, D.C. 20501.



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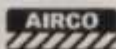
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Trade Umpire's Tough Calls

The ITC's Paula Stern is new but seasoned.

AFTER YEARS of near obscurity, the International Trade Commission has suddenly become "a veritable M.A.S.H. unit for domestic industry's import casualties," says Paula Stern.

Stern should know: She has taken charge of the ITC in the midst of the country's worst trade crisis in a half century.

A huge trade deficit has sent appellants for many industries scurrying to the front door of the crumbling pre-Civil War ITC building to plead for import relief.

Once inside, most have not found Stern's a soft shoulder to cry on.

"She's extremely difficult," says one man who has frequently represented companies and others seeking protectionist decisions from the commission. "She has an orientation that gives her a mind-set that raises questions about her objectivity. She's a free trader."

And yet, another close observer of Stern who has argued for both protectionist and free trade rulings, says, "She leans toward free trade, but she's not doctrinaire. She asks tough questions, does her homework and thinks really hard about whether import relief will really help an industry."

The ITC, an independent advisory body, is an island between the legislative and executive branches. It is a quasi-judicial panel that rules on industry claims that imports should be subjected to tariffs or quotas or other forms of punishment when they cut into the muscle of native industries, costing profits and jobs.

After investigations and hearings, it recommends that the executive branch grant or deny relief.

The agency is funded by Congress, which often gives it research chores and occasionally calls upon it for advice. Also, individual members appear at ITC hearings on behalf of industries they think should be shielded from cheap imports.

There are multibillion-dollar stakes on the ITC's table. Consequently, pressures are mounting that will test the agency's institutional immunity from both the executive and legislative branches.

"I am very concerned," Stern said after President Reagan named her to the ITC chair in June, "that we maintain our independence and not get pulled into political negotiations. There is a legitimate role for politics in our system. But it's not here at the ITC."

Stern's voting record on the six-member commission shows that she has sided with the majority of her colleagues 84 percent of the time. Though the ITC has leaned toward relief recently, its decisions have historically been even-handed. "I'm not out in left or right field," she asserts. In five recent major decisions, Stern voted against relief for footwear and carbon and stainless steel

PHOTO: T. MICHAEL KEZA



Paula Stern: "Narrow protectionism could well leave user industries out in the cold."

but for import protection for the copper and tuna industries.

(The President later denied quota relief for steel and copper.)

"An industry must be seriously, not just materially, injured," she says. "A showing of serious injury depends on factors such as a significant idling of domestic facilities, a large part of the U.S. industry operating without reasonable profits and significant unemployment. Once serious injury has been established, imports must be shown to be an important cause and at least as important as any other cause."

Last summer she voted against the majority and said the steel industry did not meet the imports injury test.

Imports are not the fundamental problem of the \$62 billion carbon steel industry, she said. "Their impact could have been mitigated by a more vigorous, selective and well-planned investment program. If import relief is the sole focus for solving the steel industry's problems, this industry and nation are marching down the road to industrial obsolescence."

In fact, says Stern, imports generally contribute to a healthy economy and should not be viewed as inherently evil in an increasingly interdependent world economy.

"Imports are encouraging structural changes" in the American economy from sunset to sunrise industries, she says. "New competition and new entry into our market, I should hope, are encouraging structural changes."

THIS POSTURE OFTEN puts Stern, a Democrat who was an aide to Gaylord Nelson when the liberal Wisconsin Democrat served in the Senate, alongside the free-trading Reagan administration. Though she has never met Commerce Secretary Malcolm Baldrige and only casually knows Trade Representative William Brock, she says of the staunchly antiprotectionist Brock: "He's an awfully smart guy. Every time he opens his mouth, I learn something."

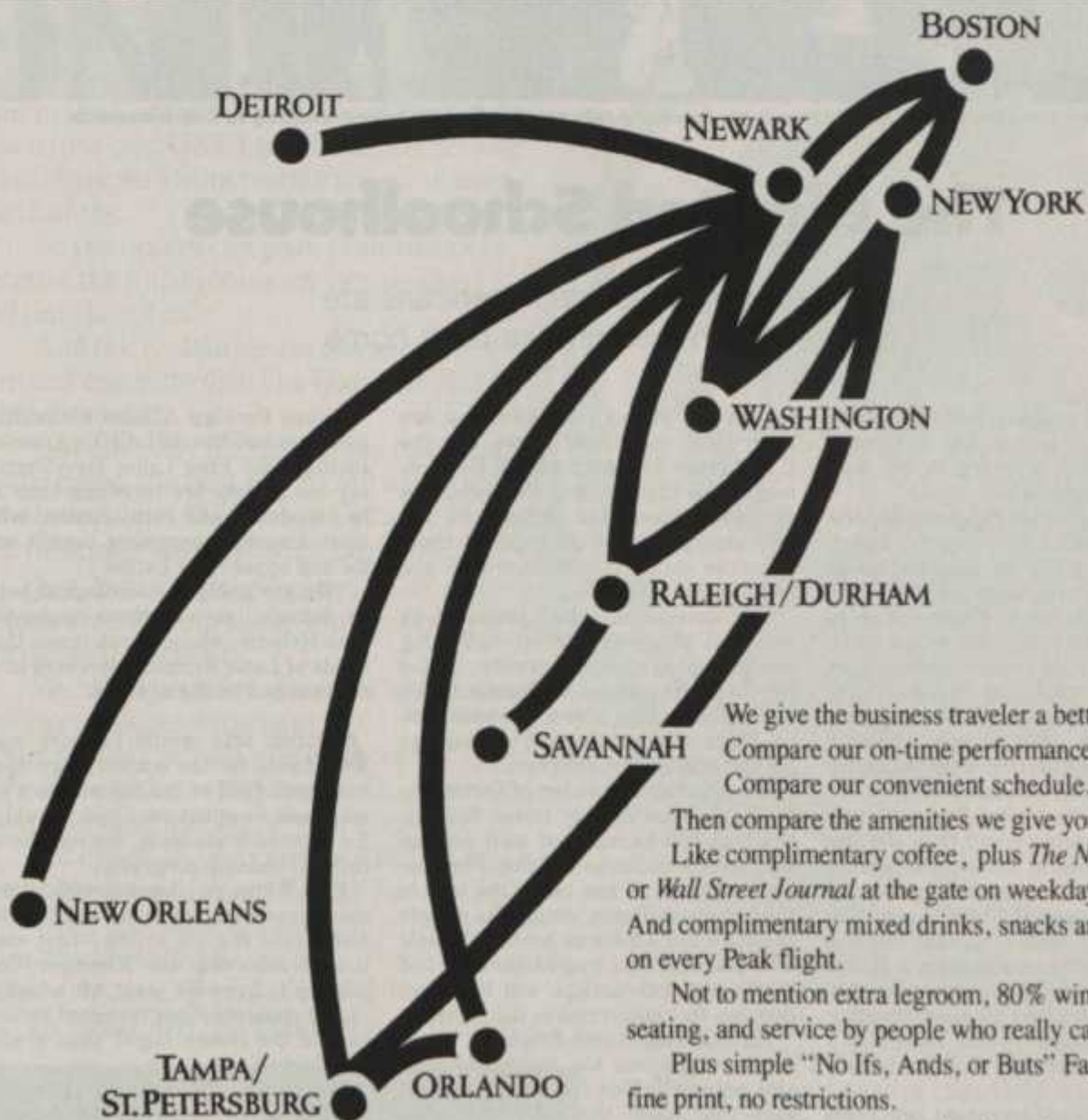
A Memphis native, Stern earned an M.A. from Harvard University and a Ph.D. from the Fletcher School of Law and Diplomacy in international affairs, and later worked at the Brookings Institution and the Council on Foreign Relations as well as on Nelson's staff.

Those who know her well bet on Stern's ability to parlay her meticulous brass tacks devotion to facts and figures and her case-by-case treatment of the trade issue into both continued independence of the ITC and fair-minded treatment of many ailing industries.

An indication of this came July 11, when the commissioners took their seats in a jam-packed hearing room, blazing with television lights. In this pressure-cooker environment dozens of steel lobbyists leaned forward to learn what kind of remedies the ITC intended to recommend to relieve their import burden. Stern looked up, panned the room with a smile. She tilted her head toward a sometime foe on the commission, Alfred Eckes. "I'm glad to see you all here to help us celebrate Al Eckes' birthday," she said.

—Henry Eason

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Recent Third World graduates of Friendship University rally near the Kremlin before returning to their homelands.

The Big Red Schoolhouse

Soviet-trained Central Americans are a threat to free enterprise back home.

THE SOVIET UNION is betting that the old school tie will win in Central America what it is trying to win with tanks in Afghanistan.

The U.S. Information Agency reports that an estimated 7,500 Central Americans are studying on scholarships at Moscow's Friendship University, throughout Eastern Europe and in Cuba—a sixfold increase since 1977. They threaten to swamp government agencies and university faculties back home with graduates beholden to Marxist benefactors. Few students educated in the Eastern bloc find work in private enterprise, USIA officials report.

Meanwhile, the United States government is sponsoring fewer than 400 students from Central America, according to a bipartisan commission headed by former Secretary of State Henry Kissinger. Citing "the important implications the training of a country's future leaders has for its political development," the commission says creating more scholarships "would represent a sound investment of U.S. assistance funds."

An effort to get increased help from business and other private sources is recommended by the General Accounting Office, which recently reviewed the government's efforts. "Limited resources are best spent where they can serve as a catalyst to private funds," GAO says. "U.S. officials may wish to encourage [the private sector] with supplemental assistance and seed and matching funds."

GAO says several thousand Central Americans, mostly from the upper

classes and paying their own way, are studying in the United States. But the U.S. Agency for International Development holds that building the economies of these nations and support for the free enterprise system requires training more young people from low- and middle-income families.

The commission, which produced an economic blueprint for strengthening the region against subversion, called for the United States to finance 10,000 more scholarships over a five-year period. There is strong support in Congress for the \$290 million program.

The American Chamber of Commerce of Panama has already raised \$2.5 million that will be matched with another \$2.5 million under an existing Panamanian program. It has taken the lead in the Caribbean Basin, joining the efforts of native and American business people who fear that the long-range effect of Soviet bloc scholarships will be to undermine free enterprise in the region.

Panama's Chamber President David Craft, who heads the Borden Company's regional office for Latin America, says that when the graduates come back "I'm not going to hire them—other businesses aren't—so they become teachers and bureaucrats and really get into the system."

William Riely, a Panama Chamber official promoting business-sponsored scholarships, says private enterprise cannot shoulder much of the burden. "Due to the economic and social problems confronting Central America, the local resources available for such projects are limited," he says.

House Foreign Affairs Committee members and the AFL-CIO's American Institute for Free Labor Development say the Soviets are targeting their aid to blue-collar and rural youths, while most American programs benefit middle and upper class Latins.

"We are losing the ideological battle by default," says institute spokesman Jack Heberle, whose group trains thousands of Latin American workers in vocational and technical skills.

A HOUSE BILL would earmark more funds for the economically disadvantaged. Half of the \$50 million it recommends be spent next year would go for university students, the rest for vocational training programs.

Paul White, an education official with the Agency for International Development, sees the bill as the "first step" toward achieving the Kissinger Commission's five-year goal of schooling 10,000 students. Congressional insiders believe the House might pass it after the election.

Meanwhile, the Panama plan is attracting the interest of other business groups throughout the Caribbean. Next year, Panamanian and American business people intend to send 40 Panamanians to the United States for training at community colleges and vocational schools, followed by on-the-job instruction in American businesses.

As the program gets under way, 200 Panamanians will be coming home with new degrees from the Communist world.

—Henry Eason

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A Business Of Her Own

Women now are outpacing men in becoming entrepreneurs. But they have a long way to go.

CENTENNIAL One, Inc., Lillian Lincoln's office cleaning contracting firm in Crofton, Md., employs 600 and realizes \$6.5 million in annual revenues.

Habersham Plantation Corporation, a furniture manufacturing company founded by Joyce C. Eddy in 1972, will take in \$5 million this year. It provides jobs for 100 workers in the north Georgia community of Toccoa (population 10,000).

Gretchen van Horn's garment manufacturing firm, Gretchen, Inc., in Kansas City, Mo., employs 20 people and provides an income for 50 others who sell the company's tailored women's clothing by appointment in their homes. Annual revenues: more than \$500,000.

An entrepreneur's entrepreneur, Tommie Cohen of suburban Baltimore owns Tomco Insurance Corporation, with sales that exceed \$5 million annually, and is a partner in Tomco Money Management Corporation, which manages a portfolio of \$13.5 million. With other partners, she launched a school to train people for jobs in shoe repair and a trading company to assist service businesses in exporting and importing.

These women defy the myth that fe-

male entrepreneurs are making candles in their basements or knitting booties for sale. And they challenge the perception that if a woman runs a fairly large firm, she must have inherited it. Today's women business owners are making it on their own.

Despite the size of their companies and the contributions they are making to their local economies, however, these four entrepreneurs, like many others, are among the "hidden" women business owners—hidden because partnerships and corporations do not show up in statistics that identify business owners by sex. The only figures available are on women who are sole proprietors. As inadequate as those statistics may be, however, they indicate a powerful surge in business ownership by women.

Women are entering into business ownership at least four times as fast as men. Three million of the 13 million sole proprietorships in the United States are owned by women, and women's enterprises contribute an estimated \$40 billion annually to the U.S. economy, according to the U.S. Small Business Administration.

In spite of the numbers, Carolyn

Doppelt Gray, director of the SBA's office of women's business ownership, says women entrepreneurs have not reached their full potential.

Though 22 percent of the sole proprietorships are women's, they represent only 8 percent of such firms' gross receipts, she points out. And self-employed women net an average of \$2,200 yearly compared with \$7,139 for self-employed men. The gap may close eventually, since many women's businesses are still young and need time to grow, Gray says. But she notes a tendency on the part of women to underprice their services.

Gray says she herself "fell into the trap" when she opened a law office in Fort Wayne, Ind., five years ago. Others persuaded her that people would not pay as much for a woman lawyer. It was not until she had a number of successful trial cases behind her that she brought her fees up to market rates.

"The bottom line is, how can we ask others to look on us as equals if we don't treat ourselves as equals?" she tells women.

BECKY NORTON DUNLOP, a deputy assistant to President Reagan, points out that although women-owned businesses received \$863 million in federal prime contracts in 1983—four times the dollar amount they got in 1979—that is still little more than one half of 1 percent of total federal procurement expenditures. "I just find it incredible that women business owners still don't have 1 percent," she says.

Part of the surge of women entrepreneurs, Joyce C. Eddy (left) founded Habersham Plantation Corporation, a Georgia furniture company that provides jobs for 100 workers.

Dunlop hopes to remedy that. She is chairman of the Interagency Committee on Women's Business Enterprise, established during the Carter administration and reactivated by Reagan in August, 1983, as part of a three-pronged program to support female entrepreneurship (and, some women say, as an antidote to the "gender gap").

The other prongs are a series of more than 20 conferences for women business owners around the country and a President's Advisory Committee on Women's Business Ownership.

In September, Dunlop's interagency committee, consisting of high-level representatives of each of the cabinet departments and independent agencies, presented Reagan with a recommendation that the federal government at least double the amount of its prime contracts to women-owned enterprises to the 1 percent level—or \$2.2 billion—in fiscal 1985.

The biggest problem, according to Dunlop, is communication: "Women in the private sector don't know how to get into the federal procurement process, and the procurement officers in government don't know who the women in business are."

As an initial step in spreading the word about women business owners among the nation's 4,000 federal procurement officers, the interagency committee brought 125 leading officers to the White House for an educational session in October.

Meanwhile, Dunlop notes, some of the nation's largest companies are ahead of the government in their rate of purchases from women's businesses.

For example, the electronic and defense sector of TRW Inc. in Redondo Beach, Calif., reports that nearly 1.5 percent of its subcontracts are going to women. According to O.R. Baisden, a TRW procurement policy director, the sector will do more than \$6 million worth of business with women this year, up from \$4.8 million in 1982. It maintains a pool of about 300 women-owned businesses—from engineering and high tech firms to publishing companies—from which it buys regularly.

The rise of women-owned businesses should come as no surprise. Observers see it as a logical outgrowth of the increased number of working women, the rise in college-educated women and female M.B.A.s, and the growth of the economy's services sector,

Where To Get Help

Women business owners or would-be owners can learn about government programs to help them by writing to the Office of Women's Business Ownership, U.S. Small Business Administration, 1441 L Street, N.W., Washington, D.C. 20416. Other sources:

- American Association of Black Women Entrepreneurs, 1326 Missouri Avenue, N.W., Suite 4, Washington, D.C. 20011, (202) 231-3751.

- American Woman's Economic Development Corporation, 60 E. 42nd Street, New York, N.Y. 10165, (212) 692-9100.

- National Alliance of Home-based Businesswomen, P.O. Box 95, Norwood, N.J. 07648.

- National Association of Women Business Owners, 500 N. Michigan Avenue, Chicago, Ill. 60611, (312) 661-1700.

where most women business owners are concentrated. A greater willingness on the part of fathers to turn family businesses over to daughters is also a factor.

"At a time when women are making greater strides in all areas, it is natural that many decide owning a business offers an opportunity for advancement," Sen. Nancy Landon Kassebaum (R-

Harvard Business School's first black woman graduate, Lillian Lincoln, owns a Maryland office cleaning company that has \$6.5 million in annual revenues.



Kans.) said at a recent conference on women's business ownership in Kansas City. She notes that entrepreneurship offers women more flexibility in combining economic needs with family needs than does working for somebody else.

Women are motivated to own their own businesses by many of the same reasons that move men. Dissatisfaction with an employer pushed Tommie Cohen into starting Tomco Insurance. Others are frustrated with their career choices. One of eight women seated at a luncheon table during the Kansas City conference asked her tablemates how many were former schoolteachers. Six hands shot up.

OTHER WOMEN simply discover that they have what it takes. Centennial One's Lillian Lincoln, the first black woman to graduate from Harvard Business School, was working as a Bowie State College business administration teacher and doing some consulting. When she helped turn a client company around, she realized she could handle a small business of her own.

Her client was a building maintenance company, and over the three years she had worked with the client, she had developed experience in the business as well as contacts. That helped her to decide to go after government cleaning contracts.

Still, it was not easy. Even though she had a contact at the SBA and knew a contracting officer at an Army post in Virginia who was willing to give her a contract, she could not get SBA approval under its minority set-aside program. She learned to push harder, winning a \$150,000 contract at the post, Fort Belvoir. In the eight years since she started her company, Lincoln's business with Belvoir alone has grown to \$1 million annually, and she has graduated from the set-aside program to competitive bidding.

The trend toward female entrepreneurship has gained momentum from women business owners who began "networking" in city after city about 10 years ago. They have been forming organizations in which they can learn from one another's experience, organizing seminars, pushing for more prominent roles in the local business community, lobbying, and testifying before Congress, state legislatures and regulatory bodies on small business issues.

One of the country's chief networking organizations is the National Association of Women Business Owners, which has chapters in 22 cities and 10 more

in formation. NAWBO has initiated an action plan that, if achieved, could assure women entrepreneurs a more meaningful place in the mainstream of American business. In part it calls for:

- "Teaming" NAWBO firms with mid-sized and larger companies to increase procurement opportunities for women's businesses and provide management and technical assistance aimed at helping them grow.

- Enhancing women's access to capital.

- Pushing for more women business owners on the boards of corporations,

banks, business and trade associations, and public commissions.

"NAWBO is very interested in fast-tracking the growth of women's business enterprise," says Virginia Littlejohn, NAWBO president and partner with her husband in Littlejohn Johnson, Inc., a Washington consulting firm. "We don't want to sit around and wait 10, 15, 30, 40 or 50 years for it to happen at a normal progression."

NAWBO is also concerned about the paucity of statistics. To help fill the gap, it has conducted research on its own members, with findings that sug-

gest women's businesses are larger than government figures indicate.

The Mid-America Chapter, based in Kansas City, surveyed its 72 members and found that 71 percent of the firms represented were corporations or partnerships. Average gross billings were \$720,000. Ninety percent of the women had either bought or started the companies themselves; only 4 percent had inherited their businesses.

Women business owners are finding that as they succeed, they no longer are subjected to as much skepticism and ridicule as they once had to face. Kristin Wilson, president and partner of Calamity J. Contracting Inc. in Minneapolis, recalls that when the residential remodeling firm—initially a women's collective—started seven years ago, its painter would go into a paint store knowing exactly what she wanted. But male clerks would argue with her because they did not think she knew what she was doing. Or one of the carpenters would go to a lumberyard and the salesmen would laugh at her.

"They don't do that any more," says Wilson. The \$500,000-a-year firm is now taken seriously, she says, and often gets referrals from local housing associations and building inspectors.

AND EVEN THOUGH access to capital—especially venture capital—remains one of their biggest hurdles, women entrepreneurs are finding it easier to get money at the bank.

In fact, Joyce Eddy of Habersham Plantation Corporation found it so easy that she expanded too rapidly. She had to do a turnaround, cutting out a middle management layer and revamping her marketing concept. "We lost a lot of money," she recalls. "I think we would have been better managers had it not been so easy to borrow."

Then there is Edna Hennessee, founder of Cosmetic Specialty Labs, a Lawton, Okla., manufacturing firm that employs 225 and does between \$5 million and \$10 million in annual sales. Hennessee has founded several businesses, the first 40 years ago, and she says she will never forget the first \$100 she had to borrow when she needed raw materials. She had no experience with banks and did not know what was expected of her. She finally got an accountant's help in preparing a financial statement and a presentation.

More than 30 years later, in 1980, she borrowed her first \$1 million from the same bank. This time, she had a thriving business, considerable assets and, she says, "no fear of borrowing."

"It was easier to borrow the \$1 million than the \$100," she says wryly. □

—Sharon Neilton

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Wall Street Votes a Day Late

By Ray Brady

WALL STREET votes with its stocks. If you go into one of the watering places where Wall Street traders and analysts congregate, like Harry's Bar on Hanover Square, you quickly learn how true that old saying is. Wall Streeters, in their decision making on whether to buy or sell stocks at many recent trading sessions, have been concerned about Election Day, 1984, and what might happen after it.

Many Wall Streeters say the stock market already has factored in a Republican victory November 6. Indeed, some argue that belief in a Democratic defeat was one of the elements that sent stock prices up last summer. So, they say, don't expect much action if Ronald Reagan does win—stock prices already have adjusted to it.

However, some analysts say a Republican triumph in the congressional races—with the GOP holding the Senate and picking up seats in the House—would surprise many investors and could help the market pick up a bit. (Conversely, a GOP loss would be a downer for stocks.)

But what will happen if Walter Mondale wins?

William LeFevre, an analyst at the investment firm of Purcell Graham & Company and a market historian of no small repute, says a Mondale victory would be like the surprise that hit Wall Street in 1948. The Street went to bed thinking Republican Thomas Dewey had won and woke up to find Democrat Harry Truman was continuing in office. Stocks dropped sharply. Predicts LeFevre: "If Mondale wins, you'll have a whopper of a sell-off the day after the election."

Any political poll on Wall Street is bound to be heavily weighted in favor of the GOP, the party of most of the financial community. So why are stocks not soaring like rockets?

One reason is the feeling that whoever is elected President is going to face big problems such as high interest rates, the tax question and the fear—



Stocks were up a year after Calvin Coolidge and Charles G. Dawes, shown in a campaign poster, began their term. Not so for Republicans since then.

expressed by many Republican Wall Streeters, it should be noted—that the big deficits could bring on a recession sometime in 1985. "Somebody," says Eldon Grimm, senior vice president of the financial firm of Birr Wilson, "has to bite the bullet on the deficits."

Added to that, the economic recovery has been going on for two years, and the average length of postwar expansions has been 36 months. Notes one analyst: "It's going to be tough to make money in the stock market over the next 9 to 12 months."

Also, some Wall Streeters think, the weight of history is pressing down on the market. Says Bill LeFevre: "No Republican since Calvin Coolidge in 1925 has had a plus on the Dow Jones Industrial Average at the end of the first year of his term—whether it was his first or second term."

Case in point: In 1972, Richard Nixon swept nearly every state. The market went up, but it peaked two months after the election and kept going down until December, 1974.

(Democrats? The Dow was down at the end of Jimmy Carter's first year but up in the comparable Truman, John Kennedy and Lyndon Johnson periods. It was down at the end of two Franklin Roosevelt first years.)

Another concern: Even a landslide for an incumbent GOP President may not be accompanied by a landslide in Congress. Both in 1956 (Dwight Eisenhower) and 1972 (Nixon), the Republicans won sweeping presidential vic-

tories but did not do nearly so well in the congressional races.

Walter Mintz, of the money management firm of Cumberland Associates, is considered to have one of the Street's best political minds. If Reagan wins, Mintz sees this scenario: "The economy will continue to expand, inflation probably will get just a bit worse, and the American dollar will decline a bit."

Corporate profits? "They'll expand," says Mintz, "but not by a lot."

Then there is the deficit and how to pay for it. Under Reagan, says Mintz, "there won't be an increase in tax rates, but we'll see the number of deductions cut down or perhaps some change in exemptions."

And if Mondale wins?

The Democrats, says Mintz, "would increase tax rates and pressure the Federal Reserve to expand the money supply. That would mean the inflation rate would go up, though probably not until sometime after 1985." Adds Mintz: "If Mondale wins, the dollar goes down a lot. At least at first."

So how do you play the market on the day after Election Day?

A half-dozen random interviews with prominent Wall Streeters show they tend to agree with Walter Mintz: Inflation would remain under control with a Reagan victory. One result: lower interest rates.

As these Wall Streeters see it, then, the best buys might be interest-sensitive stocks, which benefit if rates go down. Among their selections: savings and loans and regional banks.

Most of them say that if Mondale wins, they would not want to own stocks. They say they would put their money in gold or other real assets that would rise with inflation.

Which brings up the question of who will win at the polls.

One way to tell, say Bill LeFevre, is to check the Dow on the Monday before Election Day. If it is higher than it was at the beginning of the year—last January 3 it stood at 1252.74—the incumbent will stay in the White House. Or, at least, that has been the pattern in 15 of the past 20 elections. □

RAY BRADY is the business correspondent for CBS News.

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Taking a Bigger Bite of The Personal Computer Market

Apple's John Sculley wants to transform a high tech marvel into a consumer item.

By Mike Lewis

MARKETING MAN John Sculley is changing the nature of Silicon Valley as he tries to make an Apple as palatable as a Pepsi.

Sculley, 45, was the treasure in a hunt launched early last year by Chairman Steven Jobs, 29, and the board of Apple Computer, Inc. Apple—started in 1976 by two California college dropouts in a suburban garage—was well on the way to its current totals of more than 4,500 employees and more than \$1 billion in annual revenues. But the company had lost its premier role in the burgeoning personal computer industry to International Business Machines Corporation, and Jobs and his board were looking for someone who could win it back.

Apple wanted a president and chief executive officer with a marketing background and experience in running a large, consumer-oriented company. His task would be to transform Apples from technological marvels into consumer products.

As president and CEO of the Pepsi-Cola Company, the domestic soft drink division of PepsiCo, Inc., Sculley had brought to a thirsty world Pepsi Free no-caffeine soda, big plastic bottles of Pepsi-Cola and the Pepsi Challenge advertising campaign. A lifelong tinkerer, Sculley had an Apple II computer in his office at Pepsi long before he heard from the young company.

Like Adam, Sculley was a bit reluctant to bite the Apple; there was a 4½-month courtship. "I never even had thoughts about leaving PepsiCo," Sculley recalls. He agreed to talk with Ap-



Apple's board of directors brought in John Sculley to impose management discipline and marketing flair as the firm battles the financial clout of industry Goliath IBM.

ple, though, because he was intrigued by Jobs and cofounder Stephen Wozniak, who had started the personal computer industry—Apple was the first successful mass producer of PCs—with few assets other than their own imaginations.

"They had to be very lucky or very good," Sculley says. "I later discovered that, sure, they were lucky, but they

were incredible. They were just brilliant young people."

Leaving PepsiCo was not easy for Sculley, who had acquired a large circle of admirers within the beverage industry since joining the firm in 1967 as a marketing executive. He had made the international division the corporation's fastest growing, and then, as head of the Pepsi-Cola Company, he had gone head-to-head with Coke. There was another factor: Not only was Sculley in the running to succeed PepsiCo Chairman Donald Kendall, he had known Kendall, a friend of his family, since childhood.

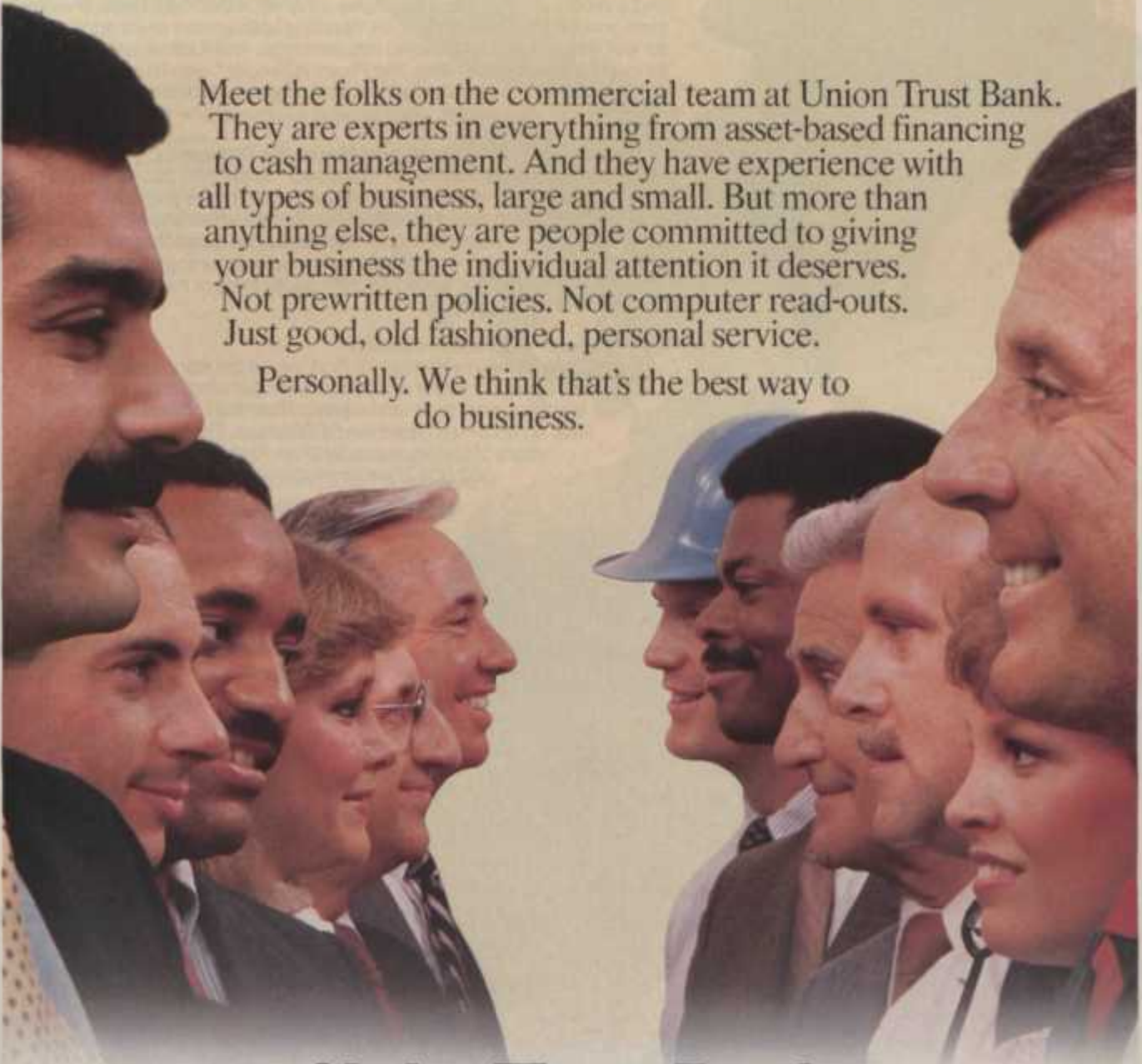
Says Kendall: "I've had a very, very close relationship with him—almost the kind you would have with a brother or son."

It was Kendall who had convinced Sculley to switch from architecture to marketing in graduate school—and Sculley had married and divorced Kendall's stepdaughter before going to work at Pepsi. ("In point of fact," Sculley says, "there never was any nepotism involved, but a lot of people like to suggest that there was.")

"Don's influence on me personally was very important," Sculley says. "What I admired about Don was that he was a great leader of people. He was a visionary, he was a builder, he loved entrepreneurs, and these were all things that excited me as well. So I decided to learn as much as I could from him."

Kendall was aware that Sculley was talking with Jobs. "I had discussions with him during the time he was negotiating, and I told him to turn down the

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first offer, as a matter of fact—it wasn't high enough."

Sculley developed a friendship with Jobs and knew what he wanted to resolve before agreeing to move to Apple: "I got a chance to see how receptive he would be to my coaching him, trying to teach him about some of my experiences—and to see how fast I could be in picking up some of his great ideas. It was quite clear that Steve was the kind of person who liked to work with people who are able to grasp things quickly."

Finally, Jobs offered a \$1.8 million first-year compensation package and a challenge: Here was an opportunity to lead a company in the vanguard of an industry revolutionizing the way people work with information. It was then, Sculley recalls, that he decided to go "from cola cold war to computer war."

"The real test had to come when I could demonstrate to myself and the rest of the world that I could do a lot even without Don Kendall. As much as I hated to leave Pepsi, Apple is the right place for me right now."

THE HARDEST PART of managing Apple, Sculley says, is "how to bring discipline to a company where the average age is 29." When he came to this company of young people, he turned down the offer of a corporate jet and insisted on an office half the size of the one built for him. He has adopted an office dress style his colleagues call "East Coast casual": He frequently wears jeans and an open-neck shirt, though he has not joined some of his employees in wearing shorts and sandals.

Sculley devoted his first 10 months on the job to studying the company, looking for ways to eliminate duplication of effort and products. He reorganized the company along product lines, with two divisions—one for the old standby, Apple II, and one for the newer computers, the Lisa and Macintosh.

Now "people are more team-oriented," says Dave Larson, marketing manager of the Apple II division. "Groups are more willing to work together, there's more clarity. We've grown up a lot in the last year."



Company insiders say the warm relationship between Chairman Steven Jobs (left) and Sculley is the key to Apple's new direction.

Apple's new product-oriented structure seems to be a clear reflection of Sculley's ideas about how to run a business. "I have always believed that great marketing starts with a great product." The result at Apple is that each division enjoys a great deal of independence; each is responsible for marketing its own products, for example.

Before Sculley joined the company,

**Sculley emphasizes
what he calls**

"great openness . . .

**If we don't trust
our own people,
then how in the
world can we expect
to be really great?"**

says Mike Murray, marketing manager of the Macintosh division, "marketing was always regarded as a cost to Apple rather than as an investment."

But under Sculley, Larson says, "we want to be one of the top five advertisers in the United States." Apple's managers, he says, once thought of the company as being in the technology business, but under Sculley, "it's a con-

sumer products company."

In the past, Apple and other computer manufacturers produced the machines that technology made possible, but Sculley "brought to this company a sense of looking at the consumer and looking at the competitor" before designing products, Larson says. One result is the Apple IIC portable computer, whose impact on the home market has forced IBM to upgrade its weak-selling PCjr.

Another result: an increase in resources allocated to marketing by a number of Silicon Valley electronics firms.


Sculley has "defined what marketing is in this valley," proclaims William Campbell, the first person the new CEO hired at Apple, in July, 1983. He was named one of the company's three executive vice presidents in September, with responsibilities for sales, marketing support and distribution.

Campbell, at 44 perhaps the oldest Apple employee other than Sculley, describes the company's environment in succinct terms like those he no doubt used when he was Columbia University's head football coach in the early 1970s: "We work our butts off." He explains that Sculley has fostered an atmosphere in which young middle managers are given a great deal of responsibility.

Sculley's conception of managing emphasizes having what he calls "great openness throughout your entire organization." He conducts meetings with staff members at all levels to discuss Apple's goals. "We're willing to take the risk of having the world read about it in the local newspaper, because we think it's so important. If we don't trust our own people, then how in the world can we expect to be really great? You have to have an environment where people feel free to let others see what they're working on."

To improve its ability to compete, Apple has been studying Japanese automated manufacturing techniques. The highly automated Macintosh factory that opened last fall was designed to be overhauled three times in four years.

Manufacturing efficiencies are important, Sculley says, because Japanese companies have come to dominate many types of electronics products by



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using American technology. From 1951 to 1979, he says, American companies licensed some 32,000 patents to Japanese firms that cost the Americans \$500 billion for research. The Japanese, he says, had to spend only \$9 billion on agreements and development in order to turn the patents into products.

"We've had a fire sale of our technology to the Japanese," Sculley says.

WHEN SCULLEY moved to Apple, a lot of people in the computer industry wondered how an established executive would work with the mercurial Jobs. Campbell has an answer: "He's Steve's best friend. That's why this thing works so well. I think Steve is profiting from his experience with John by seeing John's immense discipline. John is a very practical man."

"There's no question," Sculley says, "that it never would have worked at Apple if Steve Jobs and I couldn't have gotten along together. It would have been naive to think that the cofounder and chairman of the company—someone who has brilliance and vision about where the whole industry is going, not just Apple—wasn't going to play a major role in the company. I looked at it as a partnership."

To meet the challenges of his job, Sculley often rises at 4:30 a.m. for a head-clearing run before embarking on a day at the office that may extend into the evening hours (although he denies being a workaholic). He keeps a sailboat in Camden, Me., maintains an interest in art and is a member of the U.S. Chamber of Commerce board of directors.

Few people think Sculley can maintain his current pace indefinitely—and he has said he cannot envision Apple's being run by an old man. Campbell thinks that Sculley will be at Apple for a long time but that he should join a business-school faculty when he leaves the company: "He would be an unbelievable teacher."

Sculley has, in fact, a deep interest in American education, which he thinks needs a thorough restructuring. He says the system stresses repetitive tasks appropriate for the work skills of the past but

insufficient for a world in which people may change job fields three or four times during their careers.

Even with personal computers in schools, he says, "unfortunately, most people are doing the same drill and practice of teaching the multiplication tables, and of teaching dates with flash cards. That's just really missing an incredible opportunity." Instead, Sculley would have a teacher supply students with a computer data base representing scientific knowledge at the time the steam engine was invented—and then see if the students could invent a steam engine.

"The focus moves off remembering key dates and focuses on ideas and concepts," he says, "and that to me is going to prepare a young generation for the kind of real jobs that are going to be out there much better than what we are doing right now."

But Sculley's focus now is on ensuring that a lot of those computers in schools bear his company's logo and that more and more Macintoshes and Lisas find their way into offices where

IBM's machines have ruled. Many of the people who make corporate purchasing decisions worked for IBM or learned about computers on IBM equipment. To entice these managers to try an Apple, Sculley acknowledges, "we've got to have a better vision." By making computers easy-to-use tools, Sculley says, "we're going to earn our way into corporate America."

Such advances do not come cheaply. During the nine-month period ending in June, Apple's revenues rose 58 percent, to \$442.1 million from \$267.2 million during the same period the previous year. But net income for the nine-month period ending in June plunged 54 percent, to \$33.2 million from \$71.6 million a year earlier, largely because of vastly increased outlays for advertising (\$100 million this fiscal year) and research and development (\$70 million).

SCULLEY AND HIS workers in the Apple orchard are eager to devote more long days to the battle against IBM, the only company whose personal computer revenues exceed Apple's.

From an investor's standpoint, Sculley has "done a great deal for Apple," says Ulric Weil, a principal at Morgan Stanley & Company, a New York-based investment banking firm. Weil, a securities analyst in the computer field, says Sculley's emphasis on advertising and promotion has had a noticeable impact on the personal computer industry. Apple, Weil says, is a good investment for risk-oriented investors, with the major risk—like that for other computer manufacturers—lying in the resources and market power of IBM.

From his marketer's perspective, Sculley describes the battle this way: "It's a two-horse race—we don't see anybody else out there. Here's IBM, a national treasure, maybe the world's best-managed traditional corporation, and Apple, one of the gems of the future. If this country doesn't have room for the Apples, what's left for America? The success of Apple goes well beyond the personal computer. It goes right to the fundamental roots of what makes America great." □

Mike Murray, Macintosh-Lisa marketing manager, has one of the new circuit boards that quadruple the memory of the Mac.



EGYPT



SPECIAL ADVERTISING SECTION

Egypt Works For Peace and Prosperity

THERE IS A feeling of hope and optimism in Egypt, the birthplace of early civilization.

Internationally, Egypt represents stability in the Middle East. Speaking to the People's Assembly on September 15, Prime Minister Kamal Hassan Ali said that Egypt is determined to seek a negotiated overall Arab-Israeli settlement and an end to the Iraq-Iran war.

Egypt's willingness to continue to fill the peacemaker's role in the volatile

Law No. 43, passed in 1974 and still in force, provides foreign investors with many attractive incentives. Virtually all types of projects are eligible under Law No. 43, with priority granted to those that reduce imports of basic commodities, generate exports, use advanced technology or patents of well-known products, or encourage tourism. A government list of priorities shows the greatest concentration on food security, housing, medical products and industry.

cating in this desert city 25 kilometers from Cairo, the GM venture will receive a 10-year tax holiday rather than the 5-year holiday granted by Law 43. A Mercedes-Benz plant is also planned for the new city, and Ford is expected to open a dormant plant it owns in Alexandria. All three will build trucks, and the GM unit will also assemble buses.

This breakthrough extends to autos. In the past, auto manufacturing was delegated to the government-owned El Nasr

Automotive Manufacturing Company, which produces the Fiat auto under license. But just recently the government announced it would entertain tenders from foreign automakers to produce upwards of 100,000 units annually. The government would like to have this, like the GM, Ford and Mercedes-Benz operations, financed by and run by the private sector.

Currently the largest bloc of foreign investment in Egypt is in petroleum exploration. It is expected to stay dominant, but foreign investors are looking with greater interest at other sectors of the economy. Although import substitution has been a key factor in industrial development philosophy in the past and still is of paramount importance, Egyptian officials are seeking to expand export opportunities to the United States and other markets, particularly textiles, leather goods, wine, cut flowers, furniture and perfume.

But they are also looking at a wider spectrum—the Arabic-speaking world and Africa. Egypt sees itself as the logical link between those millions of consumers and Western Europe and America. In addition to its strategic location, as a member of the Arab Common Market, Egypt has an enviable marketing position.

Joint ventures or licensing agreements to produce American products, for example, would be beneficial to both Egypt and the United States. □

PHOTO: GROVER HEIMAN



The Nile's waters were important for navigation, not to mention vital for irrigation, in the days of the Pharaohs, and they still are today. This river scene is in Cairo.

Middle East is encouraging for peace in the region, which has been of paramount concern to foreign investors.

Internally, too, there are changes. Although in 1974, under the late President Anwar Sadat, Egypt had introduced the "open door policy" to more foreign investment, President Hosni Mubarak has stressed repeatedly that the invitation to private investors was not Sadat's but Egypt's and continues to be the government's policy.

In the past there has been no question that the public sector was favored over the private sector. Today Egyptian government officials recognize that for economic development the private sector must receive more incentives for risk-taking. Egypt is also knocking down barriers to competition.

A striking example of this encouragement is a General Motors Egypt assembly plant rising from the desert sand in the new city of Sixth of October. By lo-



EGYPTAIR

Your gate to the world.

Al Ahram Reaches Out To Arabic-Speaking Readers

A MILESTONE in the history of Arab journalism in general and Egyptian journalism in particular occurred last June 18. On that day *Al Ahram*, the authoritative newspaper, published its first international edition.

This first international edition by an Egyptian newspaper was the realization of a dream of getting the same issue of the paper in the hands of Arabic-speaking readers in England, Western Europe, Canada and the United States on the same day. Previously, readers received their newspapers two or three days late.

Sent by satellite from Cairo, *Al Ahram* is now printed in London and distributed by air. The newspaper plans to publish simultaneously in the United States soon.

Al Ahram's international edition is the regular Cairo edition with some small differences to appeal to the interests of readers abroad.

The international edition, for example, does not contain Egyptian television and theater schedules but does carry the Moslem prayer times in the capitals of the world and the schedules for radio broadcasts in Arabic. The edition carries television schedules for the various countries, addresses of embassies and



Published in this building, *Al Ahram* (the logo above appears on its front page) is a venerable but modern newspaper. It now has an international edition.

consulates, and other information of interest to readers abroad.

At the same time *Al Ahram* inaugurated its international edition, it revamped its formats to include more economic information of interest to home readers as well as those abroad. Added were such things as the latest news on banking and commodity developments as well as broader coverage of economic news and events.

Now in its 108th year of continuous publication, *Al Ahram* has been vigorously pursuing a modernization program that started a decade ago. Its editors now proudly point out that *Al Ahram's* equipment and processes as modern as those of major newspapers in Europe and America. It was the first Egyptian newspaper to make the transition to offset printing.

Al Ahram's experts studied the new technology for a decade, meeting with printing experts throughout the world and carefully evaluating all of the options. The end result is printing from nylon plates, a camera that photographs an entire page and laser technology for color separations.

All typesetting now is done rapidly on a new computer, which is protected from voltage irregularities by a battery of sophisticated regulators. These regulators not only ensure

a constant supply of electricity, but if the electricity is shut off the computers can still operate long enough for the operators to save the work in progress.

Going to the offset printing method was a pioneering move by *Al Ahram*. The staff made the transition in less than two months. The presses have a capacity of between 40,000 and 60,000 copies per hour.

In addition to modernizing its composition and printing system, *Al Ahram* has introduced editorial innovations by publishing four in-depth magazine supplements: *The Economic Al Ahram*, *Sciences*, *Future of Youth* and *International Policy*.

Studies are now under way that will lead to the publication of two additional magazine supplements starting some time in 1985: a general weekly magazine and a magazine aimed at women.

Credit for this smooth transition into new equipment and processes, say *Al Ahram* officials, must go to the creativity displayed by reporters, technicians and administrative people on the staff who worked cooperatively out of love for and allegiance to Egypt.

"*Al Ahram* is part of Egypt, reflecting its struggles and development and the strong will of the Egyptian people."

Now, the editors say, with this new international edition, Egyptians abroad will feel closer to home and will strengthen their already strong ties with their homeland.



SPECIAL ADVERTISING SECTION



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Electrical Power: Matching Output and Consumption

EGYPT IS moving ahead with great strides to develop and modernize its electrical power sector. To meet future needs of the nation the government has a long-term power strategy plan that extends to the year 2005.

The nation has already exceeded its current five-year plan goals for increasing electrical power resources.

While per capita consumption of electricity in Egypt is still far below the world average, the situation is rapidly changing. Consumption, 205 kwh in 1975, jumped to 450 kwh in 1980 and to 500 kwh in 1982. Officials expect an annual increase of 15 percent for the foreseeable future and have a far-reaching plan to meet the demand.

A great deal of the increase is to come from completion of eight nuclear power stations in the next 20 years, which would provide 40 percent of the nation's electric power.

During President Nixon's 1974 visit to Cairo, the United States said it would be amenable to negotiating a nuclear cooperative agreement, thus paving the way for Egypt to acquire nuclear power technology from America.

The Egyptian People's Assembly ratified the Non-proliferation Treaty on Feb. 16, 1981. This cleared obstacles to international cooperation in the development of nuclear power for peaceful purposes. The first nation to conclude a cooperative agreement with Egypt was France, followed by the United States, West Germany and Britain.

Highlights of the nation's long-term power strategy plan:

1. To increase annual electric energy consumption per capita to 1,600 kwh by 2005.
2. To increase total electrical generation capacity from 18.5 billion kwh in 1980 to 104 billion kwh in 2005.
3. To increase the capacity of generating stations from 4,500 megawatts in 1980 to 22,000 MW in 2005.
4. To meet the demand for electricity



Electricity needs are generating a lot of power plant construction. The turbine at left was made by an American company.



to cover the needs of all sectors of the economy.

5. To interconnect all remote coastal and desert areas to the National Unified Power Grid, to improve service in those areas and to supply remote new communities.

6. To construct a series of eight nuclear power stations to provide 40 percent of the nation's power by 2005.

7. To implement the Quattara Depression Project, in which Mediterranean Sea water will be channeled to the depression for electrical power generation.

8. To use the Nile fully for hydroelectric power generation, develop pump storage systems in the Red Sea area and build mini-hydro projects in the Delta and Upper Egypt.

9. To use renewable energy sources

on a large scale to provide 4 to 5 percent of the power needed by 2005.

This ambitious plan is already under way. By the end of 1985 the Ministry of Energy expects to have increased installed capacity from 4,500 MW to 7,000 MW. This will be achieved by completing plants now under construction in Ismailia, Suez and Abu Kir, by expanding plants in Kafr-Dawar and gas turbine plants at Mahmoudiya and at Siouf in Alexandria, and by building the first 300 MW unit of the Shoubra El-Kheima thermal power plant.

Already the first units of the plants in Ismailia and Abu Kir are feeding into the national grid network. Concurrently, the grid's substations are getting more capacity, and more transmission lines are being installed. The existing distribution networks in Cairo, Alexandria and other cities are being replaced or rehabilitated. Efforts are being made to improve service to industry and the public.

By the end of 1985, Egypt's planners expect that all major rural areas will be

electrified, which will not only improve the lifestyle of the people but also expedite mechanization of agriculture and improve the irrigation systems.

Objectives for 1990 are equally ambitious. The ministry projects completion of the 270 MW Aswan II power plant, the 2x150 MW Gabal Galala pump storage plant on the Red Sea and the first nuclear power station, which will be located on the northwest coast.

In addition it expects the 3x315 MW thermal power station now under construction at Shoubra-El-Kheima to be completed and operational. This construction project has been receiving a great deal of favorable attention because it appears that it will come in under the projected cost of \$800 million (U.S.) by some \$70 million to \$80 million and be completed about a year ahead of schedule.

Still more projects are under way, such as a 1,200 MW coal-fired power station in the Sinai that will burn coal from that region as well as imported coal. Another coal-fired plant is planned for the northwest coast at Sidi-Krir.

Tapping all of its energy sources, the Egyptian government plans two 150 MW and a 300 MW thermal power plant complex at Suez that will burn natural gas from the petroleum and gas fields in the Gulf of Suez. The initial cost estimate for this plant is \$300 million.

By 1990 the government expects to have all rural areas electrified, ample power to meet demands for public transportation and intercity travel, and further refinements of the transmission system to improve the quality of the supply, especially for industry.

But Egypt continues to tap all resources. It is in discussions with the People's Republic of China on hydroelectric power generation techniques and with West Germany on power generation from renewable resources.

And Egypt is making efforts to become more self-sufficient in producing equipment such as insulators and transformers. Egypt imports about \$4 million annually in insulators, which are made from kaolin, a substance available in Egypt. This project is one being discussed with the Chinese.

Important to the energy program is a recent decision that calls for the government-owned Nasr Electric Transformers and Equipment Company to manufacture large transformers and minimize imports to save hard currency. The company is expected to produce transformers worth 700,000 Egyptian pounds annually and provide jobs for 859 workers. Excess production will be exported to other Arab and African nations. □



Industrial expansion that has led to construction of plants like this one requires an expanded power supply.

Aswan: Powerful Source of Power

Egypt's ambitious long-range industrial development plan is heavily dependent on increasing electrical power. Accordingly, a high priority has been placed on this sector.

Electric power was first introduced into the nation at the end of the 19th century. Up until the mid-1960s the generation and transmission of this energy resource was handled by a large number of independent governmental and private companies.

Recognizing the need for a national grid for distribution and long-range planning, the government consolidated all these companies and their facilities into one state-owned and controlled organization, the Ministry of Electricity.

Clearly one of the most important events in Egyptian electrical power generation history was the construction of the Aswan High Dam. By 1978 the generating capacity of the Aswan Dam and the Aswan High Dam complex accounted for 66 percent of total electrical capacity. Thirty-one percent of capacity comes from 10 thermal plants, and 3 percent comes from five gas and turbine plants.

The Aswan High Dam joined the Great Pyramids and the Suez Canal as major engineering achievements in Egypt's long history. The Aswan High Dam's 12 generators, when completed in 1970, added 2,100 megawatts of capacity.

But because of the dam's other major use—controlling the flow of the Nile River—this capacity cannot be consistent. The dam's turbines discharge into a reservoir to ensure a regulated flow of the Nile. This places constraint on power generation. Capacity varies from a minimum of 900 megawatts in the winter months to 1,400 megawatts in the summer.

To fully use the waters held in the 2,000-square-mile Lake Nasser, which was formed by the dam, the government has considered a number of options, including adding more turbines; electrifying the dam's three barrages (small dams) and building additional barrages, which would be available for power generation; and building pumped storage facilities along the river.

These types of facilities would use natural depressions to serve several purposes: relieve pressure on the dam from 310-mile long Lake Nasser, permit greater regularity of electrical power generation, and make it possible for the water in the reservoir to be used eventually to reclaim desert land for cultivation.

Egyptian officials are confident that the nation can meet its electrical power needs in the future and assure foreign investors that an ample and reliable supply is and will be available for the expected surge in private industry.

Egyptian Companies Welcome Competition

ADEL GAZARINE, a renowned amateur photographer and respected engineer and manager, is chairman of the Egyptian Engineering Industries Corporation, the government holding organization that controls 20 government-owned manufacturing companies. One of them is El Nasr Automotive Manufacturing Company (NASCO), which produces autos, trucks, buses, tractors and trailers.

"We welcome competition," says Gazarine, whose work force totals more than 68,000 and whose operations produced goods valued at 885 million Egyptian pounds in the 1982/83 fiscal year.

"We are very happy to note that General Motors has started a joint venture in Egypt with other foreign investors and private Egyptian investors," he says.

Now that light and medium truck and bus ventures are under way, Gazarine has turned his attention to the private automobile. NASCO, in addition to mak-

ing West German Magirus Deutz trucks and buses under license, also makes Italian Fiat autos under license. With 800,000 autos already on Egyptian roads and the number expected to increase to 1.2 million by 1990, Gazarine is looking for another source.

Accordingly, the government recently issued an invitation for proposals from the private sector for a new car factory to produce 100,000 cars annually. While not ruling out the possibility, Gazarine does not see any government funding. The investment would come from private Egyptian and foreign investors.

"Egypt has always welcomed foreign investment," he says, "but my feeling is that the American investor has been waiting for a large corporation to come in, and General Motors has done this. I expect more to follow."

Gazarine sees a vast market for Egyptian motor products at home and



Egyptian Engineering Industries head Adel Gazarine sees big markets.

abroad. He envisions Egypt's exporting autos in the future, with the prime market being the member nations of the Arab Common Market (to take advantage of customs exemptions in the market).

Gazarine says Egypt offers many advantages, including basic industries and an ample supply of skilled labor that works at relatively low wages compared with those in developed countries. Also, he notes, there are 47 million Egyptians—a sizable domestic market—plus the added millions in Arab and African nations. Coupled with generous tax incentives, these factors make Egypt an attractive place for foreign firms.

"What we need is participation by American companies to help us go deeper into capital goods production," Gazarine says. "We not only have the raw materials, we also have the industrial capacity to build new factories."

Egypt, he says, is very receptive towards foreign investors wishing to establish cement plants, brick factories and fertilizer manufacturing facilities. Egyptian industry, he adds, is fully capable of manufacturing the equipment needed by plants of that type, such as boilers and furnaces.

Gazarine points out that the market encompasses more than Egypt, which needs to build 13 new cement plants to handle the construction needed for its growing population.

Says Gazarine: "In Saudi Arabia and other Arab countries there is also a market, and we hope to export to them our manufactured products. To do this we would like to have American partners. What we need is know-how and assistance—technical and management—to go into the manufacturing of tanks, boilers, conveyor systems, electrical transmission towers, to mention just a few items."

Variety of Products

The Egyptian Engineering Industries Corporation makes a wide variety of products for the domestic consumer market as well as capital goods:

El Nasr Automotive Manufacturing Company—passenger cars, trucks, buses, tractors and trailers.

Egyptian Light Transport Vehicles Company—bicycles, motorcycles, microbuses and vans.

Misr Engineering and Tooling Company—truck bodies and trailers.

SEMAF—railroad passenger and freight cars.

Alexandria Shipyard—ships up to 60,000 tons.

Ideal—refrigerators, automatic washing machines, steel furniture and vacuum cleaners.

Philips—television sets, radios, refrigerators and light bulbs.

Koldair—air conditioners and automatic washing machines.

Alexandria Metals Company—kitchenware, gas stoves, gas heaters and automatic washing machines.

Cairo Metals Company—house-

hold utensils, cast iron pipe, bathtubs.

STEELCO—steel structures, electrical transmission line towers, overhead and construction cranes, and tanks.

METALCO—same products as STEELCO.

El Nasr T.V. Company—black and white television sets, radios and electronic transmission equipment.

Arab Company for Radio and Transistor—products like those made by El Nasr T.V. Company.

Electro-Cables Company—low, medium and high tension electrical cables and electrical wire.

SABI—building materials such as hinges, door handles and locks. Also files, grinding stones and sparkplugs.

El Nasr Boiler Company—medium-sized tube boilers.

Egyptian Springs & Car Parts Company—leaf and coil springs for vehicles and railroad cars, brake and clutch lining.

Industrial Installations & Services Company—erection of factories and industrial services.

Egypt is now in the third year of its current five-year development plan, and already plans are under way to redirect the focus of the next plan. Most likely it will call for increasing the capacity of existing companies and stronger efforts to increase exports.

"I don't think our corporation will go into new industries," Gazarine says. "We will place great emphasis on the design and production of capital goods."

The government is looking more favorably on joint ventures, one of which, for example, would be a plant to manufacture 1 million refrigerator compressor units annually.

"Another area is auto products," Gazarine says. "We have every intention of going deeper and deeper into local content and to produce more auto parts in Egypt. We are encouraging private investors to come to Egypt and produce parts."

"Egyptian investors are looking for partners. We are already engaged in talks with major American auto parts manufacturers and they are very promising. The new car market and the after-market for parts are very good in Egypt. Americans are most welcome."

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EGYPTAIR A Modernized Pioneer

IN A LAND WHERE recorded civilization dates back nearly 7,000 years, half a century is not generally noteworthy, but in the history of air transportation it is significant.

This year EgyptAir marked its 52nd year, making it not only the pioneering airline in the Middle East but one of the pioneers in the world. The airline was one of the first members of the International Air Transport Association.

The fledgling airline was founded in May, 1932, as Misr Airlines (Misr means Egypt) and began flight operations in August, 1933. Using two British-built De Havilland 84s, which could carry five passengers, Misr Airlines became the first airline in the Middle East to link Cairo, the capital of the Arab world, with the capitals and major cities of neighboring countries.

Since then the company has continually modernized its fleet of aircraft to meet growing demand for seats and to provide the most efficient and comfortable airliners. In 1935 the airline added five De Havilland 89s, which carried seven passengers, had two 200-horsepower engines and cruised at an air speed of 140 miles per hour. That same year it took a major step forward with the purchase of two De Havilland 86 Express aircraft that could carry 14 passengers, had four 200-horsepower engines and an air speed of 186 mph.

During World War II, when commercial aircraft production was halted, the airline added 10 British military Avro Anson aircraft and modified them for airline use in its shops in Cairo. With a seating capacity of seven, these aircraft remained in the fleet until they were replaced with new airliners when manufacturers turned once again to commercial aircraft building after the war.

Egypt's government took over control of MisrAir after the war and purchased 10 American-built Beechcraft P-185s. In 1949, when new designs were coming off the assembly lines, the airline added 10 British-built Vickers Viking aircraft. With a seating capacity of 27, these swift and comfortable aircraft became known as the "Flying Pullmans."

The Egyptian air carrier introduced the French-built 33-to-44-passenger Langue-

docs in 1950, eventually buying five of these aircraft. The carrier became the first international airline to fly the turbo prop Viscount. Powered by jet engines, this British-built aircraft carried 52 passengers on MisrAir's international routes. The company also added five American-built Douglas DC-3s to expand its domestic routes.

In 1958 the airline, which changed its name to United Arab Airlines, began a new era with the introduction of the turbojet-powered De Havilland Comet 4C, which had a seating capacity of 84 and a range that allowed the airline to add service to more distant capitals and major cities.

The airline continually added to its fleet. In the '60s the airline added seven American-built Douglas DC-6Bs, which could carry 76 passengers.

To operate in the increasingly competitive international field, the airline turned again to American manufacturers in 1968 and purchased the Boeing 707/320C, a swift four-engine jet that allowed the airline to service all parts of the Middle East and the world, including the Far East.

In October, 1971, the airline took its present name—EgyptAir—and continued its expansion and modernization program. Seven Boeing 737/200 twin-engine jets, each with a seating capacity of 121, were added in 1976 to support short-range regional and domestic needs. Three years later EgyptAir began acquiring three Airbus A-300s, built by a West European consortium. With a seating capacity of 255, these wide-bodied aircraft proved so popular that EgyptAir added five more in the early 1980s.

Faced like other airlines with rising fuel costs, EgyptAir again turned to U.S. manufacturers and early this year purchased three fuel-efficient, wide-bodied Boeing 767/200s, the most modern aircraft of its category now in operation. The 767ERs of the EgyptAir fleet are an extended-range version. The longest-range twin jet now available, the 767ERs, which can fly up to 9,200 kilometers, will replace the fleet's 707s on



Purchase of four-engine De Havillands was a major step in 1935 for EgyptAir, then 3 years old and known as Misr (it means Egypt) Airlines. The company has come a long way since those days.



most international flights. Each aircraft has 16 first class, 25 business class and 165 economy class seats.

Along with its continuous fleet modernization program, EgyptAir has begun a very ambitious development program in other areas. The air carrier has installed a new British reservation system, OSORES, which improves the quality of passenger handling and other operational requirements. To handle the new computer system, the airline has completely refurbished its computer center



The company's fleet today includes Airbus A-300s like the one at left below, Boeing 707s like the one above and Boeing 767s like the one at right below. Ultramodern, the 767s will fly most international runs.



building. Among the new equipment installed is a full scale uninterruptable power supply. A new advanced Network Control Center has been added.

The changeover from the old EgyptAir system, acquired from Aer Lingus, to the newer British system normally would have required a minimum of two years. But EgyptAir personnel, with support from IBM (which supplied the computers), SITA and British Airways, completed the changeover in half the time.

Engine maintenance and repair are



among the most vital of the operations that keep an airline running, and EgyptAir now has its own engine shop where a highly trained staff keeps its jets flying safely and on schedule. Because of the need for scrupulous cleanliness, the building is pressurized to exclude dust and desert sand. The pressurized ventilation and filtering system provides five air changes per hour. Eventually the airline plans to offer maintenance and engine rebuilding services to other airlines using Cairo International Airport.

The engine maintenance shop, which became operational in May, 1982, is a 4,000-square-meter facility capable of handling all facets of jet engine maintenance, including stripping and reassembly, and complete engine parts repair on selected components of the Pratt and Whitney engines used in the fleet's 707 aircraft and the General Electric engines in the Airbus A-300s.

Among the facilities available are module strip and assembly, sheet metal repair, analytic inspection, destruction testing, rotor and stator strip and assembly, rotor balancing, machining, drilling and honing, X-ray inspection, bearing and electrical equipment overhaul.

EgyptAir provides food services through a modern flight services complex. The Cairo complex caters to 27 foreign air carriers in addition to EgyptAir flights. During the peak season it prepares up to 20,000 meals daily.

In addition to passenger operations, EgyptAir is heavily involved in air cargo

shipments. The airline inaugurated a new air cargo terminal in May, 1981, that is the largest and most modern in the Middle East. The present capacity is 100,000 tons annually, but through an ongoing expansion program the cargo handling capacity will soon be increased to 200,000 tons annually.

Headquartered in the hub of the Arab world, EgyptAir remains poised and ready to ensure that it will continue to be a vital link between the East and the West and the Middle East and Africa. □

One Firm's Story: Egyptian Labor Can Be a Great Asset

THERE IS NOTHING that the Egyptian worker cannot do," says Ibrahim Kamel, 43, chairman of Kato Aromatic, S.A.E., the world's largest producer of jasmine essence. Kamel is living proof that the private sector can thrive in Egypt's liberalized investment climate.

As an Egyptian, Kamel naturally plugs his own country, but he also holds a masters and a doctorate in business administration from the University of Michigan. He spent seven years in the United States studying and observing modern American management techniques, which he has applied to his own firm.

When he returned to Egypt in 1970 to join his father's firm, Kato was solely a trading company specializing in aromatics such as jasmine and in spices and seeds produced in Egypt. At the time Egypt, whose perfume industry dates to

the time of the Pharaohs, was of little significance in the production of jasmine, one of the mainstays of the perfume industry. Egypt accounted for about 10 percent of world production.

Kamel argued from the outset that Kato should become a producer of what it sold. When his father stepped down as chairman in 1972, Kamel became co-chairman along with Medhat El Tounsy. Together with Mohamed Osman, an engineer, they began building a new company.

"It took me a couple of years to convince my father that a company could lose money and still be flourishing," Kamel says. "The first year we lost 40,000 Egyptian pounds and the second year we lost 100,000. But in 1972 we recovered all of our losses, and we've been making money ever since."



Kato's Chairman Ibrahim Kamel has applied American management methods to his company, which is thriving.

Kato Aromatic S.A.E. was born, and the expansion began. Today, with a capital investment of some 40 million pounds, the firm has production plants and plantations in 10 locations and the firm is looking at other opportunities.

By 1981 Kato controlled 60 percent of the world production of jasmine, the most precious of aromatics. In addition, the firm, which has its main plant in the outskirts of Cairo, accounts for 90 percent of Egypt's geranium essence production (60 percent of the world's) and 75 percent of the world's violet essence production. It had also become a dominant factor in other essences.

Until recently nearly all of Kato's production was exported, primarily to France, the United States and Japan. Exports in 1984 are estimated to be \$47 million (U.S.), and domestic sales will reach \$8 million. In 1985 exports are projected to be \$75 million and domestic sales will climb to \$20 million.

The spurt in domestic sales comes from the newest ventures—manufacturing under license Dial soap products, McCormick spices, jams and marmalades, dehydrated vegetables, dehydrated soups, fruit juice concentrates and Buitoni macaroni products.

Kato today has 500 employees, which have been introduced to some rather radical personnel procedures, such as the 8-hour workday and the five-day workweek.

"The Egyptian worker needs a lot of training and guidance at the beginning, but once trained he can be compared very well with workers in developed countries with regard to productivity," Kamel says.

"Joint ventures are attractive to Egyptians, not only because of the capital they can provide but also because of the new management systems that could be introduced. They would be more valuable than the dollar investment," he adds.

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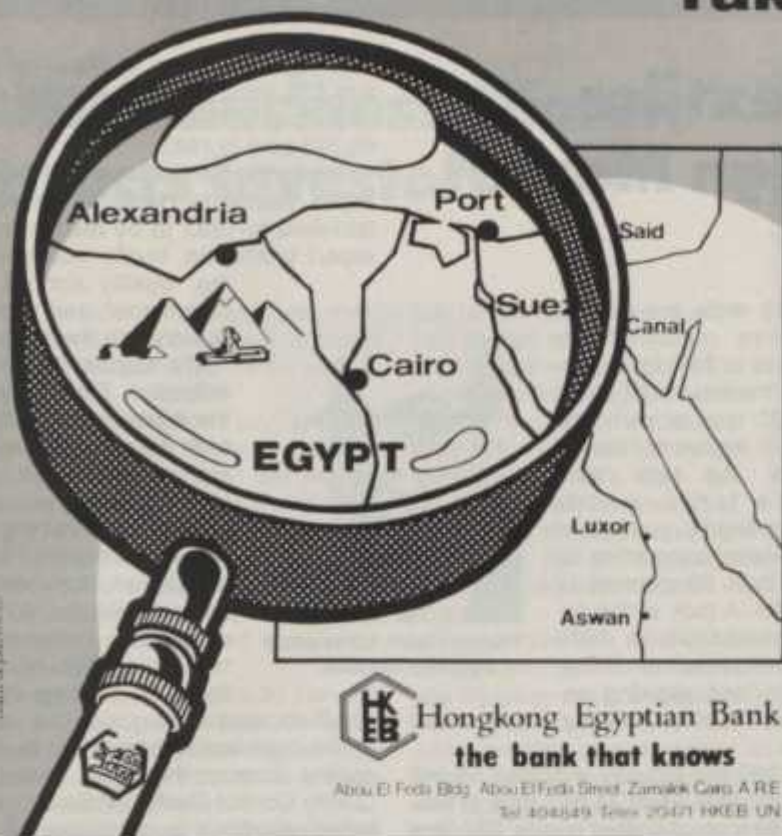
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Egypt's Quality Textiles Seek Wider Foreign Market

IN THE FIERCELY competitive cotton textile market, Egypt has recognized that quality is a deciding factor and has focused great attention on it.

Textiles first appeared in Egypt thousands of years ago during the Pharaonic period. Today the cotton textile industry is the nation's largest industry and source of export dollars. Textiles represent nearly 37 percent of Egypt's total industrial output and employ 77 percent of the industrial work force.

As a result of a modernization program that began in the '70s, Egypt's production capacity has increased to about 250,000 tons of thread and 650 million meters of cotton cloth.

According to Hamed Habib, chairman of the Cotton Textile Consolidation Fund, the number of spindles increased from 2.68 million in 1982 to 2.75 million

in 1983 while the number of looms remained unchanged at 26,000. The industry manufactured about 230,000 tons of yarn and 585,000 meters of fabric.

Until the late '60s, Egypt's textile exports were primarily yarns and gray fabrics, accounting for more than 99 percent of the total. A look at the export breakdown in 1983 shows the result of diversification and growing sophistication of the industry and its export efforts.

In 1983 the industry exported 55,345 tons of cotton yarn; 11,892 tons of fabrics; 659 tons of knitted goods; 202 tons of terry cloth; 588 tons of ready-made

clothing; 1,677 tons of made-up cloth; and 570 tons of cotton wool for a total export of 70,893 tons compared to 60,893 tons in 1982.

Key to this performance is the organization headed by Habib, which was established in 1953 to be responsible for export promotion, textile industry training, quality control, and commercial and technical guidance to the industry.

The Cotton Textile Consolidation Fund promotes the marketing of textiles in both the domestic and foreign markets. Through its laboratories, research institutes and training centers it has enhanced standardization, both technical and professional. Within its capabilities it makes loans to textile mills to assist them in meeting interna-

tional standards and quality control.

The organization carries out its quality control program through a Testing and Quality Control Center, which has established standards to guarantee the minimum quality level of cotton and synthetic products. Customer complaints today apply to only .02 percent of exports, as measured by their value.

This center, which was created in 1967 and modernized in 1970, is one of the leading textile laboratories in the Middle East. It is augmented in its work by the fund's textile research and development center, which was established in 1982 in Alexandria as a research and trouble shooting unit for the industry.

But the organization's major focus remains on the problem of securing an adequate and growing share of foreign markets, one of which is the United States. Less than 10 percent of Egyptian textiles exports, valued at approximately \$20 million, go to the United States, representing a fraction of 1 percent of total textile imports to the U.S.

Habib is energetically trying to gain a greater share of the U.S. market. He is far from convinced that additional Egyptian imports would disrupt the vast U.S. textile industry. And he points out a dilemma—Egyptian mills purchase equipment from U.S. manufacturers with U.S. government loans, but are denied a larger share of the market to gain the dollars to pay off those loans. One of the largest mills, for example, spent \$100 million on U.S.-made equipment.

"How can we pay you the value of these machines when we are not entitled to export more of the products made by these machines to you?" Habib asks.



Hamed Habib takes pride in Egyptian textiles.

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A New Business Climate Attracts Investors

SOMETIME in 1985 a shiny new small truck will roll out of a long factory in Egypt's desert about 20 miles east of Cairo.

It might be a Chevrolet Luv, an Isuzu or a British Bedford, depending on the brand name selected, and will mark a milestone in modern Egyptian industrial history.

The vehicle that will be assembled in the General Motors Egypt S.A.E. plant in Sixth of October City will be the first of its type made or assembled by a firm in the private sector.

The new venture headed by General Motors will manufacture Isuzu-designed light and medium trucks and Isuzu buses. General Motors has a 31 percent interest in the new venture.

Isuzu has a 20 percent interest in the venture. Individual Egyptian investors have a 33 percent interest and a Kuwaiti and a Saudi Arabian investor each have an 8 percent interest. When the 35.5-acre complex at Sixth of October City is completed, it will represent a \$40 million private sector investment. There will be no government investment, and the only requirement placed on production is that the vehicles will be using 40 percent Egyptian-made components within three years and 60 percent at the end of five years.

"I don't foresee any problem with supply to meet those goals," says Donald J. McLaughlin, supply manager and a director of the venture.

The 270,000-square-foot plant, which opens in 1985, is designed to produce 18,000 vehicles annually on a single shift. That volume is expected to be reached in the second half of 1986. A second shift may be added in 1987.

"We will start slowly in 1985, and our first efforts will be primarily training," says McLaughlin. At the start there will be 14 non-Egyptians on the staff, and within a couple of years that will be reduced to four foreigners out of a total work force of 1,200.

GM began hiring in September and started training the initial workers.

"We hired the people we consider will be our key employees in the factory and will train them first. We are using a General Motors hiring system developed in the states that includes tests for dexterity, mobility and understanding that re-

late to the job in the plant," McLaughlin says.

"There is no question in our minds that the Egyptian worker has the skills necessary and the inherent ability to demonstrate those skills. For us it is simply a matter of screening the applicants and picking those who can do the job best. There are some very sophisticated industries in Egypt."

Egypt measures local content on value. GM officials do not anticipate using any Egyptian-made engines or transmissions, but surveys have made the firm confident that once it makes its needs known and provides the management and technical support required, Egyptian manufacturers can supply the parts needed.



A drawing of the plant being built by General Motors to build trucks and buses.

Some private investment will certainly be needed to modernize those parts of the private sector that could become component suppliers. Says McLaughlin: "Our surveys show that there are many talented people in the private sector, but their machinery and equipment is often obsolete. Now that can be remedied with the change in the investment climate. The Egyptian government has recognized that the development the nation needs is going to require heavy reliance on private industry." □

Kato Aromatic S.A.E.

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Where I Stand

Key Washington decision makers will be informed of your views on these important business issues.

1 Adopt A National Lottery?

With the federal deficit a continuing concern, it was a sure bet someone would propose a lottery. Rep. Thomas A. Luken (D-Ohio) has introduced a bill to study the feasibility of a national lottery, which he says could cut the federal deficit by \$50 billion over five years. Some people see games of chance as an improper way of financing government and others fear the impact of a national lottery on state lotteries. Should the United States adopt a national lottery?

2 Voting Rights For The Homeless?

In the District of Columbia, the homeless may now register to vote by listing as their residence the shelter where they receive mail even if they never live there. Similar dispensations are being sought in several other cities. Opponents argue that such a policy could enable one person to register in a number of communities and that the public's right to a fraud-free election outweighs the voting rights of the homeless. Should the homeless be allowed to vote?

3 Honor Codes Obsolete?

Facing a serious cheating scandal, the Air Force Academy has suspended the cadet-run system of discipline for honor code violations pending a review of the code. Universities across the country have abandoned or weakened their codes, which typically say "I will not lie, cheat or steal" and sometimes add "nor tolerate those who do." Critics say such codes, whether in universities or companies, have become unrealistic in an age of ambiguous standards. Are honor codes obsolete?

Respond to the poll with the attached postage-paid card. Letters to the editor on these issues are welcome.

Verdicts On Social Security, Reagan, Bonus Pay

More than 2,500 readers responded to the questions in the September issue's Where I Stand poll. Results of each month's poll go to appropriate decision makers in the White House, Congress and the regulatory agencies.

	Yes	No	Undecided
1 Do you think you will ever collect Social Security retirement benefits?	38.3%	52.6%	9.1%
2 Will you vote to re-elect the Reagan administration?	90.4	7.2	2.4
3 Should selected teachers get bonus pay for high performance?	81.4	11.7	6.9

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A Checklist of Qualities That Make a Good Boss

A SUCCESSFUL manager has 10 qualities that are the same in a wide range of industries and occupations.

So says Harbridge House, a Boston consulting firm, which drew its profile of a successful manager from interviews with more than 5,000 employees that it serves.

The answers were consistent "regardless of the age or sex of the manager, or the industry, size, location, organization structure or corporate culture of the company," says Ernest Glickman, Harbridge executive vice president.

Employees are asked what qualities they think their own bosses need. They also are asked how their bosses measure up. The answers help the consulting firm shape its management training programs to the specific needs of each organization.

In each company a questionnaire is developed listing as many as 50 manager qualities. Employees are asked to pick from the list the qualities they consider most important for a manager to be effective. Then they are asked to rate their own boss against the list.

Despite the diversity of occupations and the differences in individual managers, the study showed that the men and women who reported on their bosses hold strong and surprisingly consistent opinions, not only on what makes a good manager, but on just how well their own bosses are doing.

This is what a good manager must do, the study concludes:

1. Provide clear direction. An effective manager needs to establish clear goals and standards for people. He must communicate group goals, not just individual goals. He must involve people in setting these goals, and not simply dictate them himself. He must be clear and thorough in delegating responsibility.

2. Encourage open communication. The manager must be candid in dealing with people. He must be honest, direct and to the point. "People want straight information from their bosses," the study says, "and managers must establish a climate of openness and trust."

3. Be willing to coach and to support people. This means being helpful to others, working constructively to correct performance problems and going to bat for subordinates with superiors. This last practice "was consistently rated as one of the most important aspects of effective leadership," says Robert

Stringer, senior vice president of Harbridge, who supervised the survey.

4. Provide objective recognition. The manager must recognize people for good performance more often than criticizing them for performance problems. Rewards must be related to the excellence of job performance, not to seniority or personal relationships. "Most managers don't realize how much criticism they give," the study says. "They do it to be helpful, but positive recognition is what really motivates people."

5. Establish on-going controls. This means following up on important issues and actions and giving subordinates feedback on how they are doing.

6. Select the right people to staff the organization.

7. Understand the financial implications of decisions. This quality is considered important even for functional managers who do not have responsibility for the bottom line.

8. Encourage innovation and new ideas. Employees rate this quality important in even the most traditional or conservative organizations.

9. Give subordinates clear-cut decisions when they are needed. "Employees want a say in things," the report says, "but they don't want endless debate. There's a time to get on with things, and the best managers know when that time comes."

10. Consistently demonstrate a high level of integrity. The study shows that most employees want to work for a manager they can respect.

For the study, Harbridge House used computerized data acquired during research for clients.

The consultant firm regularly conducts anonymous polls of employees as part of a program of improving the effectiveness of managers.

Stringer says: "When you start getting thousands of employees in a disparate group of organizations coming up with essentially the same profile of a successful manager, you can safely conclude there is some validity to the information they are giving you."

In view of how often managers themselves disagree on questions of management style, Stringer says he was impressed by the near-unanimity of the answers given by employees.

Is there one quality that stood out above all others in employees' responses? "It's amazing," he says, "how important open and honest communication is to employees."

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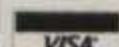
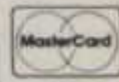
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What You Can Do About Washington Issues That Affect Your Business

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
COMPARABLE WORTH	Comparable worth supporters would fix wages under a job point system based on subjective evaluation. Economists predict implementation nationwide would result in a 9.7 percent increase in inflation and a \$320 billion first-year cost to employers.	Members of the House and Senate: Implementation of the concept of comparable worth through legislation would unjustifiably reject marketplace factors that now determine wage levels.
SUPERFUND	The House passed a \$10.2 billion program in August; the Senate marked up a \$7.5 billion package last month. The Environmental Protection Agency says it can efficiently use only \$5 billion. The current \$1.6 billion law expires at the end of 1985.	Members of the House and Senate: Support a Superfund reauthorization program at funding levels that are efficient and along guidelines established by the Environmental Protection Agency.
TAX REFORM	Both the House Ways and Means and Senate Finance Committees held hearings this year on tax reform packages. This issue is expected to receive a great deal of attention during the early months of the new Congress.	Members of the House and Senate: Do not allow a tax increase package to become law under the guise of tax reform. Carefully consider any changes you make to current law. Above all, retain tax indexing.
GROVE CITY DECISION	Groceries and pharmacies are two of many types of businesses that would be subject for the first time to federal antidiscrimination regulation if overly broad legislation is adopted to overturn the Supreme Court decision in the Grove City College case.	Members of the House and Senate: Legislation considered this year was too broad and had oppressive, far-reaching consequences not fully examined by Congress. Do not broaden civil rights law to apply to every individual federal aid recipient.
BALANCED-BUDGET AMENDMENT	Although attempts were made in both the House and Senate to pass amendment language, Congress adjourned for the year failing to approve the legislation. Supporters are expected to try again early in the 99th Congress.	Members of the House and Senate: Soon after convening in 1985, Congress should pass a balanced-budget/tax limitation constitutional amendment and send it to the states for ratification.
CONTRACTING OUT	On many of the authorization and appropriation bills, Congress will be able to vote on whether contracts for goods and services will be granted to the private sector.	Members of the House and Senate: Do not restrict the opportunities for businesses wishing to contract with the federal government for supply of goods and services.
PRODUCT LIABILITY	Due to House inaction and a filibuster threat in the Senate, Congress adjourned for the year without adopting much-needed product liability legislation. New bills are expected to be introduced in the House and Senate early in the next Congress.	Members of the House and Senate: It is urgent that Congress adopt legislation setting clear standards of product liability. The costs of doing business and, therefore, consumers' costs are higher because of Congress' failure to act.

After the Cheering Stops, The Hard Work Begins

An air of finality understandably surrounds the results of an election. They represent the final decision on what has generally been a long, hard-fought contest.

Winners are cheered, lionized, sought after. Losers slip away to obscurity or to decide when and where to fight again.

But an election is not the World Series or the Super Bowl, notwithstanding the many sports analogies used in political commentary.

An election is, in a very real sense, a beginning, rather than an end. The winners have received an opportunity to demonstrate whether they can live up to the expectations of those who have chosen them for office.

Though recognition of past service is a factor in the re-election of incumbents, they also face the challenge of earning in their new terms the confidence voters showed in returning them to office.

The real test of political victors thus begins after the excitement and tumult of election night has long since faded.

For the winners of the presidential and congressional elections, the challenges will be enormous. Many will flow from the need to make fundamental fiscal policy decisions that will guide the nation well into the next century (see cover story, page 20).

While the winners of this month's elections are entitled to their victory celebrations, the question of whether the voters have also won remains to be answered.

This Congress Needed A Finance Lesson

"Father in heaven, we are here under duress, but we imposed this on ourselves."

Chaplain Richard C. Halvorsen thus prayed over the U.S. Senate recently. The Senate and the House of Representatives had failed to meet a longstanding adjournment deadline and reluctantly extended their session to deal with major unfinished business.

The frenetic activities of the drive to adjourn included the passage of stopgap extensions of

stopgap funding bills and the hasty consideration of other complex legislation. Many bills had been pending for months, some for years.

Failure to meet a deadline forced the shutdown of a large portion of the federal government at one point. But, the ways of Washington being what they are, the 500,000 workers sent home because the federal government lacked the funds to pay them will nevertheless be paid through some ex-post-facto sleight of hand on Capitol Hill. It was Congress' own inability to make even temporary financial arrangements to keep the government running that prevented members from adjourning on time.

They were able, however, to raise the ceiling on the national debt from \$1.57 trillion to \$1.82 trillion so the deficits facing the federal government could be accommodated.

In any event, the 98th Congress is now history. Perhaps the 99th will be the one to show that there is a better way to run a legislature.

When in Doubt, Contract Out

A 30-year-old government policy requires that, whenever feasible, federal agencies obtain goods and services from the private sector, rather than from in-house operations.

Over those same years, however, there has been an expansion within the federal bureaucracy of activity contravening that policy.

The Office of Management and Budget estimates that executive agencies now spend at least \$20 billion a year on personnel and facilities for activities that could be performed as cost-effectively by private businesses.

Roadblocks to proper implementation of the contracting out policy, as it is known, include failure of federal agencies to identify activities that private suppliers could take over, manipulation of the cost comparison process and interference by some members of Congress on behalf of federal-employee constituents.

Contracting out serves the interests of the private sector, primarily its small business component, and the taxpayer. Neither the White House nor Congress should tolerate any longer the blatant actions that have thwarted contracting out's proper implementation. □

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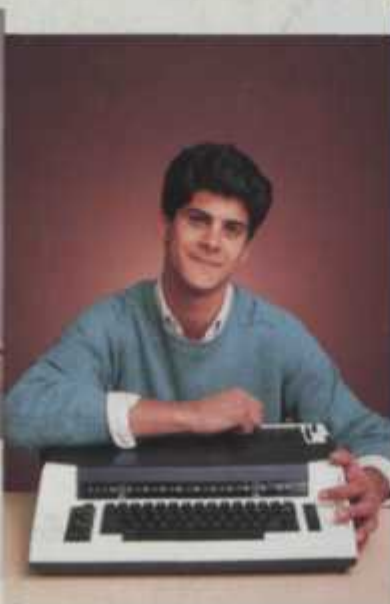
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